Discussion Points

PROPERTY RENTALS

Executive State House Renovation
1. The Executive State House project was authorized in April 2017, financed by the issuance of $343 million in bonds by the NJ Economic Development Authority. According to responses to an OLS discussion point on the FY 2019 budget, all of the work on the State House project accomplished by May 2018 was environmental or investigative in nature to facilitate the completion of a comprehensive project including clean-up, selective removal, demolition, and temporary construction. This work was considered to be precedent to the comprehensive renovation and restoration work. No renovation or restoration work had been undertaken. About $14 million had been expended.

• **Question:** Has the contract for the renovation and restoration work been awarded? If so, please provide a copy of the contract. Please summarize the work that has been accomplished since May 1, 2018 to date, and the amount of project cost expenditure. Please provide a chart summarizing the projects that are incorporated into the renovation plan and the expected timeline for start and completion. What findings, if any, have been made that alter the renovation plan or delay any parts of project? Have expenditures for any components of the project thus far exceeded cost estimates, and if so, which components and by what amount?

Answer: “Statement: “The Executive State House (ESH) project was authorized in April 2017, financed by the issuance of $343 million in bonds by the NJ Economic Development Authority.”

Clarification: The EDA bond funding of $343M includes amounts to defease all bond debt associated with the ESH and the Legislative State House (LSH) as of the date of issuance. The EDA bonds also include the cost of issuance. $283M is dedicated to the ESH Comprehensive Renovation and Restoration project.

Contracts let total $49,142,873
Paid to Date $25,890,799

**Question: “Has the contract for the renovation and restoration work been awarded”?**

Answer: No. The DPMC procurement for the General Contractor to perform the comprehensive renovation and restoration construction work is ongoing. It is a two-step procurement; in response to a broadly advertised RFP, interested firms submitted qualifications seeking to be included in the pool of pre-qualified bidders. That established pool are the contractors eligible to bid on the project. The bid documents have been distributed to the pool of bidders and bids are due in July.

**Question:** “Please summarize the work that has been accomplished since May 1, 2018 to date, and the amount of project cost expenditure.”

Answer: The architectural and engineering design consultants developed several construction packages for work to be completed in advance of the comprehensive renovation and restoration work. Those packages were released through contracts procured by DPMC and summarized in the chart below. This early, preliminary work is essentially complete.
Discussion Points (Cont'd)

In summary the following work has been completed:

- Designs for:
  - Site security fencing, lighting, and cameras
  - Removal of non-historic building components, both exterior and interior
  - Asbestos abatement and Hazardous Building Materials (HBM) remediation
  - Custom design and fabrication of historically appropriate custom lighting, both exterior and interior
  - Construction documents for the comprehensive renovation and restoration of the ESH
  - Building system infrastructure analysis of the LSH

- Construction/Preparation Work:
  - Emptying of the ESH of all loose furniture and equipment
  - Site security fencing, lighting, and cameras
  - Removal and demolition of non-historic building components, both exterior and interior
  - Weather protection and stormwater management installed
  - Asbestos abatement and HBM remediation
  - Bracing and shoring of fragile building elements

Please provide a chart summarizing the projects that are incorporated into the renovation plan and the expected timeline for start and completion.

Answer: See chart below. All work identified in the chart has been completed with the exception of minor non-historic removals that will continue until the building is turned over to the renovation restoration contractor. The anticipated award for the comprehensive renovation and restoration contractor is September/October 2019.

Executive State House Project
There is only one project with several contracts led by DPMC

Chart Summary of Contracts and Work Performed to Date
- **Architect/Engineer Design**
  $23,554,739
  - All architectural and engineering design services to complete investigative work, removals, demolition, security, lighting, and the comprehensive renovation and restoration of the ESH.
  - Includes: Building and site investigation, probes, borings, selective removals, data analysis, historical research, schematic design, space programming, design development documentation, permit design documentation, construction documents, procurement support, construction administration for all contracts let, compliance certification, closeout and turnover.
  - Coordination with all agencies having jurisdiction; such as DCA, SHPO, DPMC, DEP, Mercer County, etc. to ensure proper approvals are achieved, permits issued, and concurrences given prior to commencing any construction.
Discussion Points (Cont’d)

- Analysis of the LSH infrastructure and recommendations for modernization of building systems to current technology and to ensure that the ESH and LSH perform in concert.

- Exterior Repairs and Stabilization
  $858,189
  - Temporary measures to address emergent life safety deficiencies and removal of all materials from within the ESH following occupant relocation.

- Site Security
  $560,709
  - Installation of site barricades and security fencing to enclose the ESH project site. Included covered walkway over West State Street sidewalk to provide pedestrian protection and security cameras throughout the site for NJSP monitoring.

- Exterior Selective Removals
  $2,629,754
  - Demolition/Removal of non-historic building additions and slabs over both the east and west light wells, installation of weather protection and storm water drainage to protect the ESH until the comprehensive renovation and restoration contract commences.

- Asbestos Abatement Phase I
  $381,436
  - Abatement of asbestos and remediation of Hazardous Building Materials (HBM) necessary to complete the first interior selective removals and demolition work.

- Environmental Engineering
  $4,126

- Selective Demolition and Asbestos Abatement Phase II
  $5,121,721
  - Demolition and removal of all non-historic building elements from the interior of the ESH. Destructive testing to inform completion of the construction documents. Bracing and shoring of fragile building components. The contract also includes associated consulting services necessary to advance the early work preparing the building for turnover to the contractor who will complete the comprehensive renovation and restoration work.

- Pre-purchase Historic Lighting – Interior
  $3,787,785
  - Direct purchase custom designed and fabricated historic interior lighting that replicates lighting fixtures appropriate for the period of historic significance; the 1910's.
Discussion Points (Cont'd)

- Pre-purchase Historic Lighting – Exterior
  $1,211,464
  - Direct purchase custom designed and fabricated historic exterior lighting that replicates lighting fixtures appropriate for the period of historic significance; the 1910's.

- Construction Management Services
  $11,032,950
  - As agent to the State, manage all aspects of the completion of the design and construction in coordination with the State's oversight. Develop site logistic plans, project critical path construction schedule, theoretical and market tested cost estimates, labor resource analysis. Chair the Labor Relations Committee in support of the project specific PLA. Provide security and background check services throughout the project. During active construction, provides day-to-day management services over all activities.

Total contracts let
$49,142,873

Question: “What findings, if any, have been made that alter the renovation plan or delay any parts of project”?

Answer: The investigations to determine the found conditions revealed the building to be in a far more deteriorated condition than anticipated. The ESH was developed through eighteen distinct building campaigns from the 1790's through the 1950's.

The time required to incorporate and address the unanticipated found conditions and complete the design was extended by seven months. The time expected to complete the renovation and restoration remains at 36 months and is reflected in the developed critical path method schedule developed by the construction manager and shared with the bidding contractors. The anticipated completion of the ESH project is fall 2022.

Question: “Have expenditures for any components of the project thus far exceeded cost estimates, and if so, which components and by what amount”?

Answer: The project budget is $283,000,000. The budget contingency was established to address the unanticipated discoveries both during the development of the design and construction. The estimates to complete the renovation and restoration of the ESH and upgrades to the LSH infrastructure are within budget.

State-owned Office Space

2. Since FY 2018, certain State-owned office space has been declared as surplus and vacated or is to be vacated. Below is a list of properties the State declared as surplus and has sold or was marketing for sale. It was anticipated that the disposal of these properties would bring over $10 million in sale proceeds to the State.

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>Previous Occupant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918 E. Landis Ave</td>
<td>City of Vineland</td>
<td>DHS – vacant single family dwelling</td>
</tr>
</tbody>
</table>
Discussion Points (Cont'd)

261 N. Main Rd  
Cumberland County  
City of Vineland  
on the grounds of Vineland Dev. Center  
DHS - vacant single family dwelling  
Cumberland County  
on the grounds of Vineland Dev. Center

479 N. Main Rd  
City of Vineland  
DHS – vacant single family dwelling  
Public Defender, Department of Community Affairs, Department of Children and Families

101 Haddon Avenue  
City of Camden  
Juvenile Justice Commission  
Judiciary and State Police

- **Question:** Have these properties been sold, and if so, what were the proceeds of each sale? Did the sales result in property being returned to local property tax rolls? Does the department make that result a priority when selling surplus real property?

Answer: Yes, these properties have been sold. The sales proceeds were as follows: 1918 E. Landis Ave. ($60,000), 261 N. Main Rd. ($67,500), 479 N. Main Rd. ($67,301) and 101 Haddon Ave. ($13,950,000). In all but one instance (the sale of 101 Haddon Avenue to the Camden County Improvement Authority) the properties have been returned to the local property tax rolls. Treasury makes that an important consideration when selling surplus real property.

State Office Buildings

3. The prior administration initiated a plan to close three State office buildings with a combined 480,000 square feet currently housing the departments of Health and Agriculture and the Division of Taxation, intending to build two new office buildings to replace the building space. The project is being financed by the NJ Economic Development Authority (EDA) and managed by the Department of the Treasury, Division of Property Management and Construction (DPMC). The project involves construction of a new office building for the Department of Health; relocation of Department of Agriculture to other existing office space; demolition of the two buildings housing Health and Agriculture; construction of a new office building for the Division of Taxation; and either demolition, rehabilitation at a later date, or sale of the Taxation building. The EDA issued $375.68 million in State Lease Revenue Bonds in January 2018 to fund the project (the bonds also fund a Juvenile Justice Commission Facilities project), with a final maturity in 2047. Annual debt service is about $24.6 million beginning in FY 2019 for the remaining 30-year life of the bonds.

The current cost estimates for each new building are $116,305,000 for the Division of Taxation and $110,003,000 for the Department of Health. Costs for the demolition of the Health and Agriculture buildings are estimated at $8,897,000.

The pre-construction work for the new Taxation and Health buildings has been divided into two phases. Phase 1, the design phase, was completed by September 29, 2017. Phase 2 of the State Office Projects includes the bidding process, pre-construction, and commissioning. However, before commencing Phase 2, the project required approval by the
Discussion Points (Cont’d)

EDA Board, the State House Commission, the Space Utilization Review Committee, and Treasury as well as consideration of a statutorily required Impact Statement prepared by the Department of Community Affairs and presented to the Capital City Redevelopment Corporation (CCRC).

* Question: Please provide an update on the status of the State Office Project, including a summary of the Impact Statement, an update of cost estimates, changes in the timeline, and work-in-progress. Has a decision been made on the future use or disposition of the Taxation building?

Answer: The ground breaking for the new Health Building occurred in early December 2018 and the new Taxation Building in late March 2019. Both projects are anticipated to take two years to complete and are on schedule.

Interaction with the City of Trenton, its Planning Board, the Capital City Redevelopment Corporation, Department of Community Affairs, local advocacy groups and Trenton residents resulted in a variety of recommendations that have been incorporated into the buildings’ designs.

Project outreach/communication efforts include an information update housed on the Economic Development Authority’s website for construction related updates and alerts. The public is also able to register for these alerts via email. The Economic Development Authority, along with the Department of the Treasury, have been conducting a thorough outreach to local, small, women, minority and veteran owned business’ in accordance with the State’s set aside goals. The New Jersey Department of Treasury and Economic Development Authority also hosted two Small, Minority and Women-Owned Subcontractor Networking Events to connect small businesses in Trenton with construction management professionals actively recruiting contractors to participate in construction.

An art selection committee working in conjunction with the NJ Council on the Arts has received expressions of interest from 259 artists from New Jersey, New York, Pennsylvania and Delaware looking to compete to have their work selected for these sites. Artists’ qualifications are currently under review. Submission of approval of public artwork expenditure to the State House Commission is pending for inclusion on the next meeting agenda.

**Department of Health Update** — General Contractor Turner continues to prepare and pursue bid packages for trades/subcontractors.

Turner completed rock blasting, mass excavation and removal of earth from the site, installation of sheeting/shoring, commenced excavation for footings/foundations and mobilized the concrete subcontractor in accordance with the schedule.

The Economic Development Authority continues to work with the Department of Community Affairs with sequential plan reviews, release and construction permitting in accordance with the schedule. To date, the Department of Community Affairs has released concrete, structure and construction permitting in accordance to schedule. The Economic Development Authority commenced planning and procurement of cost proposals for Demolition Engineering Services and preparation of Mitigation Plans associated with the demolition of the existing Health and Agriculture Buildings.
Discussion Points (Cont’d)

The Health building project is currently $740,000 under the approved bond budget for the subcontractors awarded to date.

Division of Taxation Update – The architectural firm of Ballinger has completed their final construction documents. Phase II Historic/Archaeological work is complete. The general contractor, Torcon has awarded contracts for site work, concrete, foundations, steel and piles. The balance of subcontractor packages are currently being bid. Torcon is working with Veolia to commence site utility design for thermal and chilled water. Permits (Flood Hazard, Soil Conservation) have been received.

As for budget, the Taxation project has not submitted a construction invoice yet, so we currently do not have a completed cost report. In general, we have awarded just under $50 million of work which is tracking very close to the most recent Torcon estimate. We should be very close to the estimate compared to the original budget.

The Impact Statement was issued on February 16, 2018 by the Department of Community Affairs to the Capital City Redevelopment Corporation. It provided background information/development goals, project descriptions, Local Planning Services Review Summaries, General Design Criteria, NJEDA Impact Statement evaluations, Design and Cultural Plan Elements, Transportation and Land Use Elements and Impact Statement Conclusions and Summary. The Economic Development Authority and Division of Property Management and Construction responded to the recommendations and incorporated the majority of the project recommendations that were proposed.

Concerning the disposition of the Old Taxation Building, all options will be taken into consideration. As we get closer to the date anticipated for the building to be vacated, Treasury’s plans will announced.

INSURANCE AND OTHER SERVICES

Tort Claims Liability Fund

4. 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.A. 59:1-1 et seq., the “New Jersey Tort Claims Act.” The FY 2020 budget recommends an appropriation of $16 million, compared to the FY 2019 appropriation of $22.4 million and FY 2018 expenditures of about $23.8 million. According to the department, FY 2019 tort claims expenditures will not exceed $14.8 million, well below both the appropriation and the recent historical average annual cost. Budget language provides that additional funds may be appropriated as needed to fully fund claims. Information previously provided to the OLS indicates that the most costly claims against the State stem from wrongful death, personal injury and civil rights violations.

Question: Is the Division of Risk Management following best practices when engaging with State agencies to minimize exposure to tort claims? What type of training in risk management is offered to State agency executives and
Discussion Points (Cont'd)

managers? Does the division undertake detailed studies of incidents that result in high-cost claims as a risk management practice? Are there any specific actions that have caused lower tort claims costs in FY 2019 and will continue to influence costs in FY 2020? Is the FY 2020 funding level based upon the absence of pending claims, a forecast of expected settlements of pending claims, or recent expenditure history?

• Question: Is the Division of Risk Management following best practices when engaging with State agencies to minimize exposure to tort claims?

Answer: Yes.

Question: What type of training in risk management is offered to State agency executives and managers?

Answer: Defensive Driving Training, (which is a 4 hour course offered online at the LMS site).

Question: Does the division undertake detailed studies of incidents that result in high-cost claims as a risk management practice?

Answer: Yes, for auto claims which are our most costly claims in terms of severity/frequency, The Division of Risk Management (DRM) chairs the Accident Review Board (ARB), which is comprised of various state agencies. Every claim file is investigated and findings are categorized and at-fault accidents are reported to the respective agency for further action based on ARB findings and recommendations.

• Question: Are there any specific actions that have caused lower tort claims costs in FY 2019 and will continue to influence costs in FY 2020?

Answer: It is too soon to attribute DRM actions to FY2019 results until we have a total picture of the year. Claims are still coming in and many claims reported in FY2019 are still open/not settled. The ARB claim review process and the implementation of Defensive Driving should push down the frequency and severity of claims as we look ahead. However, we cannot make the definitive statement that it will have an immediate impact in FY2020.

• Question: Is the FY 2020 funding level based upon the absence of pending claims, a forecast of expected settlements of pending claims, or recent expenditure history?

Answer: Funding is based upon historical expenditure patterns.

Pension Payments

5. According to the FY 2020 Budget in Brief, the Governor’s FY 2020 budget includes a defined benefit pension payment of $3.9 billion (including the Lottery contribution), and is 7/10ths of the actuarially determined contribution (“ADC”). This proposed FY 2020 payment, like the estimated $3.2 billion FY 2019 payment and the $2.5 billion made in FY 2018, abandons the schedule of phased-in pension payments enacted under P.L.2010, c.1 and adopts an alternative schedule of phased-in pensions payments increasing in one-tenth increments until FY 2023, when the full actuarially determined contribution is reached. In that
year, the ADC is estimated to be $6.626 billion, according to a May 2018 30-Year Fund projection. In statute, the State was required to make a pension payment of at least 1/7th of the actuarially determined contribution beginning in FY 2012 and an additional one-seventh each subsequent year for a total of seven years, until FY 2018, when the full actuarially determined contribution would be paid.

**Question:** Assuming that the State makes each of its payments in accordance with the 10 percent phase-in schedule, by how much would State appropriations have to grow each year between FY 2020 and FY 2023 in order to make a full payment in FY 2023? What is the estimated impact on the ADC in each of those years by making a payment consistent with the one-tenth phase-in schedule, rather than the full ADC? Please complete Tables 1a and 1b.

<table>
<thead>
<tr>
<th>Table 1a</th>
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<tbody>
<tr>
<td><strong>PENSION CONTRIBUTION PHASE-IN</strong></td>
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<tr>
<td>Projected Annual Growth in State Pension</td>
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</table>

(1) Contribution amounts exclude projected lottery revenues.

<table>
<thead>
<tr>
<th>Table 1b</th>
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</thead>
<tbody>
<tr>
<td><strong>PENSION CONTRIBUTION PHASE-IN EFFECT ON ACTUARILY DETERMINED CONTRIBUTION</strong></td>
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<tr>
<td>Projected Annual Growth in the State’s Full ADC</td>
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</table>

**Funded Ratio**

6. One objective of P.L.2011, c.78 was to improve the funded ratios of the pension plans. Changes in funding policy, such as increasing public employees’ contributions and suspending cost of living adjustments, improved the funded ratios. The law defined “target funded ratio” to mean a ratio of the actuarial value of assets against the actuarially determined accrued liabilities, expressed as a percentage, that will be 75 percent in State fiscal year 2012, and increased annually by equal increments in each of the subsequent seven fiscal years, until the ratio reaches 80 percent at which it is to remain for all subsequent fiscal years. As long as the funded ratios fall short of the target, the retiree COLA cannot be reinstated.

**Answer:** Please see the updated Table 2 below.
Discussion Points (Cont'd)

<table>
<thead>
<tr>
<th>STATUTORY FUNDED RATIOS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used for Determining Attainment of Target Funded Ratio Per System</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State</th>
<th>Funded Ratio</th>
<th>Target Funded Ratio</th>
<th>Attainment of Target Funded Ratio?</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERS</td>
<td>45.1%</td>
<td>80%</td>
<td>No</td>
</tr>
<tr>
<td>TPAF</td>
<td>59.3%</td>
<td>80%</td>
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</tr>
<tr>
<td>PFRS</td>
<td>40.6%</td>
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<td></td>
</tr>
<tr>
<td>SPRS</td>
<td>56.5%</td>
<td>80%</td>
<td>No</td>
</tr>
<tr>
<td>JRS</td>
<td>31.3%</td>
<td>80%</td>
<td>No</td>
</tr>
<tr>
<td>Local</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>PERS</td>
<td>70.3%</td>
<td>80%</td>
<td>No</td>
</tr>
<tr>
<td>PFRS</td>
<td>73.5%</td>
<td></td>
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</tr>
</tbody>
</table>

Employee Contributions

7. Every three years, actuarial assumptions are updated in recognition of the actual experience of each system. To determine the State’s annual payment (contribution), the actuaries calculate an amount necessary to be paid to the pension funds so that, with investment returns, the accumulation of funds over 30 years is sufficient to pay the obligations of the fund. Once that annual amount is determined, employee contributions are deducted from the amount and the remainder is the amount of the employer contribution.

Public employees are required to contribute to their defined benefit retirement plans through payroll deductions at rates set by law, which vary by retirement system. P.L.2011, c. 78 increased employee contribution rates for: (1) the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) from 5.5 percent to 6.5 percent and then in annual increments to 7.5 percent. (2) the Judicial Retirement System (JRS) from three percent to 12 percent phased in over seven years; (3) the Police and Firemen’s Retirement System (PFRS) (and for members of the PERS Prosecutors Part) from 8.5 percent to 10 percent; and (4) the State Police Retirement System (SPRS) from 7.5 percent to 9 percent.

In response to an FY 2019 OLS discussion point, the department estimated that FY 2018 employee contributions, when the increases were fully phased in, would total about $493.3 million and increase to about $532 million in FY 2019.

- **Question:** What is the annual amount of contributions required by P.L.2011, c.78 from employees of the State, local governments, and boards of education, respectively in FY 2018, FY 2019 and as estimated for FY 2020? How do these amounts compare to the value of increased benefits that resulted from approval of P.L. 2001, c. 133? What is the difference between those annual contributions and the contributions that would have been/would be received if employee contribution rates had not been increased by P.L. 2011, c.78?
**Discussion Points (Cont’d)**

Answer: Please see the charts below.

### FY 2018

<table>
<thead>
<tr>
<th>System</th>
<th>Actual FY 2018 Employee Contributions at Current Rates</th>
<th>Actual FY 2018 Employee Contributions at Former Rates</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate</td>
<td>Amount</td>
<td>Rate</td>
</tr>
<tr>
<td>PERS - STATE</td>
<td>7.34%</td>
<td>$326,398,397</td>
<td>5.50%</td>
</tr>
<tr>
<td>TPAF</td>
<td>7.34%</td>
<td>$821,272,019</td>
<td>5.50%</td>
</tr>
<tr>
<td>PFRS - STATE</td>
<td>10.00%</td>
<td>$50,093,356</td>
<td>8.50%</td>
</tr>
<tr>
<td>SPRS</td>
<td>9.00%</td>
<td>$22,651,336</td>
<td>7.50%</td>
</tr>
<tr>
<td>JRS</td>
<td>12.00%</td>
<td>$11,364,841</td>
<td>3.00%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>$1,231,779,949</td>
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<table>
<thead>
<tr>
<th>System</th>
<th>Estimated FY 2018 Employee Contributions at Current Rates</th>
<th>Estimated FY 2018 Employee Contributions at Former Rates</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate</td>
<td>Amount</td>
<td>Rate</td>
</tr>
<tr>
<td>PERS - LOCAL</td>
<td>7.34%</td>
<td>$533,775,088</td>
<td>5.50%</td>
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<tr>
<td>PFRS - LOCAL</td>
<td>10.00%</td>
<td>$348,748,637</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>$882,523,725</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$2,114,303,674</td>
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### FY 2019

<table>
<thead>
<tr>
<th>System</th>
<th>Estimated FY 2019 Employee Contributions at Current Rates</th>
<th>Estimated FY 2019 Employee Contributions at Former Rates</th>
<th>Increase</th>
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<tbody>
<tr>
<td></td>
<td>Rate</td>
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<td>Rate</td>
</tr>
<tr>
<td>PERS - STATE</td>
<td>7.50%</td>
<td>$323,134,423</td>
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<td>TPAF</td>
<td>7.50%</td>
<td>$854,122,900</td>
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<tr>
<td>PFRS - STATE</td>
<td>10.00%</td>
<td>$48,592,955</td>
<td>8.50%</td>
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<tr>
<td>SPRS</td>
<td>9.00%</td>
<td>$25,052,378</td>
<td>7.50%</td>
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<tr>
<td>JRS</td>
<td>12.00%</td>
<td>$12,501,325</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>$1,263,403,981</td>
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<thead>
<tr>
<th>System</th>
<th>Estimated FY 2019 Employee Contributions at Current Rates</th>
<th>Estimated FY 2019 Employee Contributions at Former Rates</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERS - LOCAL</td>
<td>7.50%</td>
<td>$549,788,341</td>
<td>5.50%</td>
</tr>
<tr>
<td>PFRS - LOCAL</td>
<td>10.00%</td>
<td>$352,236,123</td>
<td>8.50%</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>$902,024,464</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$2,165,428,445</td>
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</table>
## Discussion Points (Cont’d)

### FY 2020

<table>
<thead>
<tr>
<th>System</th>
<th>Estimated FY 2020 Employee Contributions at Current Rates</th>
<th>Estimated FY 2020 Employee Contributions at Former Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>PERS - STATE</td>
<td>7.50%</td>
<td>$319,903,079</td>
</tr>
<tr>
<td>TPAF</td>
<td>7.50%</td>
<td>$888,287,816</td>
</tr>
<tr>
<td>PFRS - STATE</td>
<td>10.00%</td>
<td>$47,135,166</td>
</tr>
<tr>
<td>SPRS</td>
<td>9.00%</td>
<td>$27,557,616</td>
</tr>
<tr>
<td>JRS</td>
<td>12.00%</td>
<td>$13,751,457</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>$1,296,635,134</td>
</tr>
<tr>
<td>PERS - LOCAL</td>
<td>7.50%</td>
<td>$566,281,991</td>
</tr>
<tr>
<td>PFRS - LOCAL</td>
<td>10.00%</td>
<td>$355,758,484</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>$922,040,475</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$2,218,675,609</td>
</tr>
</tbody>
</table>

- **Question:** How do these amounts compare to the value of increased benefits that resulted from approval of P.L. 2001, c. 133?

Answer: The n/55 benefit enhancement resulted in a 9.09% retroactive increase for retired members of PERS and TPAF at that time. Additionally, active PERS and TPAF members received a 9.09% retroactive increase for service earned to date and a prospective increase of 9.09% in the accrual rate of future service credit. The n/55 accrual rate was changed to n/60 for all new members hired after May 21, 2010. As a result, we are unable to provide an amount that would be applicable and comparable to the increased employee contribution amounts requested above.

- **Question:** What is the difference between those annual contributions and the contributions that would have been/would be received if employee contribution rates had not been increased by P.L. 2011, c.78?

Answer: This information is not currently available.

### Mean and Median Benefit Allowances

8. Each actuarial report provides the average retirement allowance by retirement classification such as service retirement, disability retirement, and gender, but does not provide the median retirement allowance for each system.

- **Question:** Please update the median retirement allowance for each retirement system: PERS, TPAF, PFRS, SPRS, and JRS as of the July 1, 2018 actuarial evaluations as shown in Table 3. In addition, please indicate by completing table 4, for each retirement system, the average proportion of retirement allowance to final pay, as measured by the last 26 pay periods prior to retirement, or other measurement of salary in the final year before retirement. For each system, please provide a frequency distribution chart indicating the
Discussion Points (Cont’d)

number of retirees whose retirement allowance is, respectively, less than 33%, 33%-50%, 51%-67%, 68%-85%, and above 85% of final pay.

Answer: The requested information is not routinely developed by the Division of Pensions so it is not available to respond to this question.

Table 3  
MEDIAN BENEFIT ALLOWANCE  
by Retirement System as of July 1, 2015

<table>
<thead>
<tr>
<th>Retirement System</th>
<th>Median Retirement Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERS</td>
<td>$15,700</td>
</tr>
<tr>
<td>PFRS</td>
<td>$50,949</td>
</tr>
<tr>
<td>SPRS</td>
<td>$66,892</td>
</tr>
<tr>
<td>JRS</td>
<td>$103,503</td>
</tr>
<tr>
<td>TPAF</td>
<td>$39,348</td>
</tr>
</tbody>
</table>

Table 4  
MEDIAN BENEFIT ALLOWANCE FREQUENCY DISTRIBUTION  
by Retirement System as of July 1, 2018

<table>
<thead>
<tr>
<th>Retirement System</th>
<th>Median Retirement Benefit</th>
<th>Average proportion of Retirement Allowance to Final Pay</th>
<th>Frequency Distribution for the Number of Retirees whose Retirement Allowance is Distributed Across the Following Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>&lt;33% 33% to 50% 51% to 67% 68% to 85% &gt;85%</td>
<td></td>
</tr>
<tr>
<td>PERS</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFRS</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPRS</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JRS</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TPAF</td>
<td>$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Plan Solvency

9. Among the risks to a defined benefit retirement plan’s solvency is the cost of benefits increasing at a faster rate than incoming revenues. In fiscal year 2018 benefit allowances paid out of the pension funds totaled $11 billion. This was 1.68 times the employer and employee contributions of $6.58 billion paid into the funds. Since FY 2011, that ratio has declined from 3.58. Over the same time frame, benefit allowances have increased from $7.9 billion to $11 billion, or by 39 percent, while contributions from employers and employees have increased from $2.212 billion to $6.580 billion or 197 percent.
Discussion Points (Cont'd)

<table>
<thead>
<tr>
<th>Fiscal Year 2011</th>
<th>TPAF</th>
<th>PERS*</th>
<th>PFRS*</th>
<th>JRS</th>
<th>SPRS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue (Employee and Employer Contributions)</td>
<td>$560,304,963</td>
<td>$1,517,306,635</td>
<td>$113,346,914</td>
<td>$3,617,012</td>
<td>$18,171,574</td>
<td>$2,212,946,058</td>
</tr>
<tr>
<td>Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)</td>
<td>$3,334,259,136</td>
<td>$2,691,549,566</td>
<td>$1,698,465,214</td>
<td>$42,795,067</td>
<td>$147,188,117</td>
<td>$7,914,278,130</td>
</tr>
<tr>
<td>Pension Fund Money Paid out in Benefits to Contribution Money Deposited into Fund</td>
<td>5.95</td>
<td>1.77</td>
<td>14.96</td>
<td>11.83</td>
<td>8.10</td>
<td>3.58</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 2018</th>
<th>TPAF</th>
<th>PERS*</th>
<th>PFRS*</th>
<th>JRS</th>
<th>SPRS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue (Employee and Employer Contributions)</td>
<td>$2,309,238,641</td>
<td>$2,506,555,218</td>
<td>$1,634,782,761</td>
<td>$33,057,735</td>
<td>$96,383,694</td>
<td>$6,580,650,269</td>
</tr>
<tr>
<td>Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)</td>
<td>$4,385,980,740</td>
<td>$3,895,638,634</td>
<td>$2,482,275,597</td>
<td>$57,922,048</td>
<td>$220,333,147</td>
<td>$11,043,121,186</td>
</tr>
<tr>
<td>Pension Fund Money Paid out in Benefits to Contribution Money Deposited into Fund</td>
<td>1.30</td>
<td>1.55</td>
<td>1.52</td>
<td>1.71</td>
<td>2.29</td>
<td>1.68</td>
</tr>
</tbody>
</table>

- **Question:** Is the retirement rate expected to increase, decrease, or stay the same over the next three years and what are the assumptions for the growth in retirement allowances over the same time frame? How do those rates compare with the growth in the employee and employer contributions over the same time frame? Please update the table above for FY 2019 comparing the benefit payments from the pension funds to the revenues coming into the fund. Notwithstanding conclusions from GASBY 67 on depletion dates (see question 15 below), what is the department’s opinion on the risk over the next five, 10 and 15 years of current policy to each of the systems? Which systems are at the greatest risk of insolvency?

- **Question:** Is the retirement rate expected to increase, decrease, or stay the same over the next three years and what are the assumptions for the growth in retirement allowances over the same time frame?

Answer: Over the last three years the total numbers of retirements for all systems has averaged about 21,000/year. We expect that trend to continue over the next three years. For the same period of time we expect the growth rate in the annual benefit payment amounts to be between 3% and 4% annually.

- **Question:** How do those rates compare with the growth in the employee and employer contributions over the same time frame?

Answer: The employer contribution growth rate amounts are greater because of the tenths contribution ramp up process. Employee contributions grew by 2.2% between FY 2017 and FY 2018 and we expect that trend to increase in the coming years as salary grows faster due to higher salary increases and additional hiring by employers.
Discussion Points (Cont'd)

- **Question:** Please update the table above for FY 2019 comparing the benefit payments from the pension funds to the revenues coming into the fund.

Answer: Please see the updated table below.

<table>
<thead>
<tr>
<th>Fiscal Year 2017</th>
<th>TPAF</th>
<th>PERS*</th>
<th>PERS+</th>
<th>JRS</th>
<th>SPERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$1,880,619,036</td>
<td>$2,253,412,111</td>
<td>$1,265,966,327</td>
<td>$11,146,464</td>
<td>$74,578,821</td>
<td>$5,693,605,759</td>
</tr>
<tr>
<td>Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin Expenses)</td>
<td>$4,179,929,964</td>
<td>$3,751,194,750</td>
<td>$2,386,775,765</td>
<td>$55,792,837</td>
<td>$215,855,387</td>
<td>$10,688,798,579</td>
</tr>
<tr>
<td>* Includes State and Local</td>
<td>2.28</td>
<td>1.66</td>
<td>1.56</td>
<td>1.72</td>
<td>2.88</td>
<td>1.88</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 2018</th>
<th>TPAF</th>
<th>PERS*</th>
<th>PERS+</th>
<th>JRS</th>
<th>SPERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$3,304,971,301</td>
<td>$2,676,453,264</td>
<td>$1,986,939,982</td>
<td>$35,303,638</td>
<td>$94,774,920</td>
<td>$6,508,643,685</td>
</tr>
<tr>
<td>Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin Expenses)</td>
<td>$4,385,333,818</td>
<td>$3,906,689,346</td>
<td>$2,484,997,460</td>
<td>$57,714,493</td>
<td>$220,256,502</td>
<td>$11,055,991,888</td>
</tr>
<tr>
<td>* Includes State and Local</td>
<td>1.90</td>
<td>1.58</td>
<td>1.56</td>
<td>1.62</td>
<td>1.32</td>
<td>1.70</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 2019 (Estimated)</th>
<th>TPAF</th>
<th>PERS*</th>
<th>PERS+</th>
<th>JRS</th>
<th>SPERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$3,684,371,144</td>
<td>$2,657,345,793</td>
<td>$1,665,599,237</td>
<td>$41,501,325</td>
<td>$121,032,378</td>
<td>$7,167,868,877</td>
</tr>
<tr>
<td>Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin Expenses)</td>
<td>$4,492,018,169</td>
<td>$4,042,946,518</td>
<td>$2,562,276,560</td>
<td>$59,245,291</td>
<td>$223,873,476</td>
<td>$11,380,962,014</td>
</tr>
<tr>
<td>* Includes State and Local</td>
<td>1.67</td>
<td>1.52</td>
<td>1.54</td>
<td>1.43</td>
<td>1.85</td>
<td>1.59</td>
</tr>
</tbody>
</table>

- **Question:** Notwithstanding conclusions from GASBY 67 on depletion dates (see question 15 below), what is the department's opinion on the risk over the next five, 10 and 15 years of current policy to each of the systems?

Answer: Among the risks to a defined benefit retirement plan's solvency is the cost of benefits increasing at a faster rate than incoming revenues. However, there is little or no risk of plan insolvency, if the current tenths contribution ramp-up is followed until FY 2023 and the full actuarially determined contributions are made from that point forward.

- **Question:** Which systems are at the greatest risk of insolvency?

Answer: There is little or no risk of plan insolvency, if the current tenths contribution ramp-up is followed until FY 2023 and the full actuarially determined contributions are made each year from that point forward.

Quarterly Pension Payments and Short Term Borrowing

10. P.L.2016, c.83 requires the State to make its contribution to the State-administered defined benefit retirement systems each fiscal year quarterly on the following schedule: at least 25 percent by September 30; at least 50 percent by December 31; at least 75 percent by March 31; and at least 100 percent by June 30. The amount of the contribution will be net of any interest paid on any State-issued tax and revenue anticipation notes attributable solely to the need to increase borrowing in order to make the quarterly payments. In his remarks to the budget committees in April 2016, the Acting State Treasurer projected that if the State were required to follow a quarterly payment schedule, there could be ultimately an increase in interest costs of short-term borrowing of more than $100 million annually. In the response to a FY 2019 discussion point, the division indicated that there has been no quantifiable impact on short term borrowing to date, but that may change over time as the pension payment amounts increase.

P.L.2016, c.83 has had a positive fiscal impact on the plans and employer pension contributions. Quarterly contributions as opposed to making a single contribution on the last day of the fiscal year allow the contributed funds to be invested sooner, producing a higher
annual investment yield on plan assets. Projections indicate that by FY 2049, (30 years from now) the fair market value of aggregate plan assets will increase by $5.2 billion (from $147.8 billion to $153 billion) and the funded ratio of all plans is projected to improve to 96.4 percent from 93.1 percent. Quarterly payments are projected to save the State $3.7 billion in aggregate employer pension contributions over the entire projection period.

• **Question:** Has the Executive complied with the quarterly payment requirement without exception since its enactment? Per fiscal year, by what amounts have payments been reduced to offset increased short-term borrowing costs? Please quantify the fiscal effects of making quarterly payments in terms of pension fund investment earnings, and plan solvency and stability. What, if any, is the impact on projected FY 2019 and FY 2020 cash flow borrowing interest costs attributable solely to the need to make the quarterly pension payments? If there has been no quantifiable impact on short term borrowing to date, what level of pension payments would affect short term borrowing costs, and when does the division anticipate pension payments to reach that level? Are the proceeds from the Lottery Enterprise Contribution Act (LECA) deposited on a quarterly or more frequent basis? If not, when are the LECA proceeds deposited into the pension fund? If the LECA funds are not deposited at least quarterly, what would be the savings from the investment earnings if they were deposited quarterly?

• **Question:** Has the Executive complied with the quarterly payment requirement without exception since its enactment?

Answer: Yes

• **Question:** Per fiscal year, by what amounts have payments been reduced to offset increased short-term borrowing costs?

Answer: To date there has been zero offset.

• **Question:** Please quantify the fiscal effects of making quarterly payments in terms of pension fund investment earnings, and plan solvency and stability.

Answer: System cash flow has improved which also resulted in slightly lower annual employer contribution requirements. Stability has been improved since the risk of reduced State contributions due to potential late year budgetary issues has been minimized.

• **Question:** What, if any, is the impact on projected FY 2019 and FY 2020 cash flow borrowing interest costs attributable solely to the need to make the quarterly pension payments?

Answer: At the current time there is no projected impact.

• **Question:** If there has been no quantifiable impact on short term borrowing to date, what level of pension payments would affect short term borrowing costs, and when does the division anticipate pension payments to reach that level?
Discussion Points (Cont’d)

Answer: Because short term borrowing costs are affected by a large number of factors it is not possible to state with certainty when this will occur. For example, strong tax receipts and availability of federal funds can alleviate some issues caused by the change to quarterly payments. By the same token, reduced tax receipts and/or federal funds could make the current cash flow situation more problematic, resulting in increased borrowing levels (and therefore additional cost).

- **Question:** Are the proceeds from the Lottery Enterprise Contribution Act (LECA) deposited on a quarterly or more frequent basis?

Answer: The lottery proceeds are deposited monthly.

- **Question:** If not, when are the LECA proceeds deposited into the pension fund? If the LECA funds are not deposited at least quarterly, what would be the savings from the investment earnings if they were deposited quarterly?

Answer: N/A

Assumed Investment Rate of Return

11. Demographic assumptions about employees and retirees used in actuarial valuations include length of service, retirement age and death rates. Financial assumptions include the expected long term rate of return on investment. In general, a reduction in the assumed rate of return results in an increase in the actuarially determined contribution, and an increase in the assumed rate decreases the contribution.

    Current law authorizes the State Treasurer to adjust the actuarial assumption regarding the rate of return on investment. In March 2018, the State Treasurer revised the assumed rate of return to 7.5 percent from 7 percent effective for fiscal year 2019 employer contribution requirements (reflected in the revised 7/1/2017 statutory actuarial valuations). She also indicated that the rate would remain at 7.5 percent for the 7/1/2018 statutory actuarial valuations, which determine contribution requirements for fiscal year 2020; that the rate would be lowered to 7.3 percent for fiscal years 2021 and 2022 (7/1/2019 and 7/1/2020 actuarial valuations); and lowered again to 7.0 percent for fiscal year 2023 (7/1/2021 statutory actuarial valuations).

    Prior to the March 2018 rate increase, the previous State Treasurer reduced the rate assumption twice within a 10-month period, from 7.9 percent to 7.65 percent and then again to 7.0 percent. These reductions seem to be consistent with the GASB rulings adopted in 2014 that required that the rate used to discount projected benefit payments to their present value be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20 year, AA or higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are met.

    In addition, according to the National Association of Retirement Administrators (NASRA), low interest rates and low rates of projected global economic growth have led to
reductions in the investment return assumptions used by public pension plans. For example, in 2001 the median investment return of 129 public pension plans in the United States was 8.0 percent. In 2018 the median had declined to 7.25 percent. Of the plans in the study, 16 public plans had rates of return less than 7.0 percent, 28 public plans, including California, had rates of return set at 7.0 percent, 33 plans had rates of returns set between 7.0 percent and 7.5 percent, 32 plans including New Jersey had rates at 7.5 percent, 14 plans had rates set between 7.5 percent and 8.0 percent, and 6 plans had rate set at 8.0 percent.

According to NASRA, as a rule of thumb, a 25 basis-point reduction in the return assumption, such as from 8.0 percent to 7.75 percent, will increase the cost of a plan that has a COLA by three percent of pay (such as from 10 percent to 13 percent), and a plan that does not have a COLA by two percent of pay. NASRA concluded that “the investment rate of return is the single most consequential of all actuarial assumptions in terms of its effect on a pension plan’s finances. The sustained period of low interest rates since 2009 has caused many public pension plans to re-evaluate their long-term expected investment returns, leading to an unprecedented number of reductions in plan investment return assumptions. Absent other changes, a lower investment rate return assumption increases both the plan’s unfunded liabilities and cost.”

- Question: To what extent did the increase in the investment rate of return from 7.0 percent to 7.5 percent reduce the cost of the plan as a percentage of pay and in terms of value? By how much is it currently estimated that each step reduction, commencing with the lowering of the rate to 7.3 percent for fiscal years 2021 and 2022, will increase the cost of the plan as a percentage of pay and value when each step-reduction is taken? What is the Division of Investment’s current outlook for investment returns on a forward-looking basis and what factors, if any, have changed recently to affect the outlook?

- Question: To what extent did the increase in the investment rate of return from 7.0 percent to 7.5 percent reduce the cost of the plan as a percentage of pay and in terms of value?

Answer: As a result of the increase in the assumed investment rate of return from 7.0% to 7.5% effective with the June 30, 2017 actuarial valuation, the State’s full actuarially determined contribution to the Pension Plans for Fiscal Year 2019 decreased by $308.4 million from $5.66 billion to $5.35 billion. For PERS and PFRS local participating employers, full contribution decreased by $327.7 million in the aggregate from $2.22 billion to $1.89 billion. Please see table below for detail by retirement system. Please see the chart below.
Discussion Points (Cont’d)

Full Actuarially Determined Contributions
Based on 7/1/2017 Actuarial Valuations

<table>
<thead>
<tr>
<th></th>
<th>Full ADC at 7.0%</th>
<th>Full ADC at 7.5%</th>
<th>Reduction</th>
<th>Reduction as Percentage of Covered Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERS</td>
<td>$1,474,846,928</td>
<td>$1,406,859,836</td>
<td>($67,987,092)</td>
<td>1.57%</td>
</tr>
<tr>
<td>TPAF</td>
<td>3,408,099,415</td>
<td>3,208,116,552</td>
<td>(199,982,863)</td>
<td>1.88%</td>
</tr>
<tr>
<td>PFRS</td>
<td>551,645,100</td>
<td>529,722,755</td>
<td>21,922,345</td>
<td>4.55%</td>
</tr>
<tr>
<td>SPRS</td>
<td>175,755,829</td>
<td>156,162,729</td>
<td>19,593,100</td>
<td>5.74%</td>
</tr>
<tr>
<td>JRS</td>
<td>50,268,674</td>
<td>48,368,041</td>
<td>1,900,633</td>
<td>2.66%</td>
</tr>
<tr>
<td><strong>Total State</strong></td>
<td>$5,660,615,946</td>
<td>$5,352,229,913</td>
<td>($308,386,033)</td>
<td>1.95%</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERS</td>
<td>$1,081,437,681</td>
<td>$949,418,016</td>
<td>($132,019,665)</td>
<td>1.88%</td>
</tr>
<tr>
<td>PFRS</td>
<td>1,136,565,523</td>
<td>940,919,323</td>
<td>(195,646,200)</td>
<td>5.89%</td>
</tr>
<tr>
<td><strong>Total Local</strong></td>
<td>$2,218,003,204</td>
<td>$1,890,337,339</td>
<td>($327,665,865)</td>
<td>3.17%</td>
</tr>
<tr>
<td><strong>Total State &amp; Local</strong></td>
<td>$7,878,619,150</td>
<td>$7,242,567,252</td>
<td>($636,051,898)</td>
<td>2.43%</td>
</tr>
</tbody>
</table>

- **Question:** By how much is it currently estimated that each step reduction, commencing with the lowering of the rate to 7.3 percent for fiscal years 2021 and 2022, will increase the cost of the plan as a percentage of pay and value when each step-reduction is taken?

Answer: Our current modeling capabilities do not allow us to isolate the change in contribution amounts solely on the basis of a change in the assumed rate of return.

- **Question:** What is the Division of Investment’s current outlook for investment returns on a forward-looking basis and what factors, if any, have changed recently to affect the outlook?

Answer: Consistent with consensus expectations amongst investment professionals and subject matter experts, the Division of Investment anticipates that investment returns will be lower on a going forward basis relative to historical experience. Some of the key factors contributing to expectations for lower investment returns include anticipated changes in productivity and demographics, slowing capital formation, increased public sector leverage, and current capital market valuations.

- **Question:** How has the Division of Investment changed the allocation of investments for FY 2020, and if so, why? How do those investment strategies differ from the investment strategies of the Board of Trustees of the Police and Firemen’s Retirement System (PFRS)?

Answer: The State Investment Council (SIC) is currently undergoing a comprehensive asset allocation study, which will include proposed allocations to various asset classes and strategies. The Division of Investment anticipates the new asset allocation plan will be approved by the SIC prior to the start of the new fiscal year. The Board of Trustees of the PFRS will have the authority to direct the investment and reinvestment policies for or on behalf of the PFRS. At this time, it is unknown if there will be any differences in the investment strategies of the SIC and the Investment strategies of the Board of Trustees of the PFRS.
Discussion Points (Cont’d)

- **Question:** Given that management of the Police and Firemen's Retirement System (PFRS) has been transferred to the Board of Trustees of the PFRS, does that shift the authority of the Treasurer to set the actuarial assumption for the rate of return for the PFRS to the Board of Trustees of the PFRS, or does that authority remain with the Treasurer?

Answer: The authority remains with the Treasurer.

**P.L.2018, c.55: transferring management of PFRS to Board of Trustees of PFRS**

12. P.L.2018, c.55 was approved in July 2018 but most provisions do not take effect until July 2019. The law transfers management of the Police and Firemen's Retirement System (PFRS) from the Division of Pensions and Benefits to the Board of Trustees of the PFRS, vesting in the board of trustees all the functions, powers, and held by the Division of Pensions and Benefits (division), and permitting the board to contract with the division for administrative purposes. The law provides the board with the authority to direct the investment and reinvestment policies for or on behalf of the PFRS. The law also requires the board to hire an executive director, actuary, chief investment officer, and ombudsman.

The law authorizes the board to modify the system’s member contribution rate; cap on creditable compensation; formula for calculation of final compensation; age at which a member may be eligible for and the benefits for service or special retirements, and standards for special retirement and disability retirement. The board may also reinstate cost of living adjustments for retirees. An actuarial certification is required prior to any enhancement or reduction of member benefits, including the activation of cost of living adjustments for retirees, showing that such change will not result in increased employer contributions in the current year and that such change will not impact the long term viability of the fund.

- **Question:** What actions have the Division of Pensions and Benefits and the Division of Investments taken in anticipation of the July 2019 effective date of P.L.2018, c.55? Have the Division of Pensions and Benefits and the board of trustees reached any agreement on the services or functions the division will continue to provide or exercise? Has the basis been established for compensating the division for its services?

Answer: The Division of Pensions and Benefits and Division of Investments are both closely working with the new Board in anticipation of the July 2019 fully effective date of P.L. 2018 c. 55.

The Division of Pensions and Benefits continues to perform all of the administrative functions for the Police and Firemen's Retirement System. The Division has negotiated an agreement with the Board of Trustees that is anticipated to be authorized at the May 13, 2019 Board meeting. The Division will continue to perform all of the functions that it currently performs for the other retirement systems with the exception of providing a Board Secretary. The Division is providing an Interim Board Secretary through June or until the Board hires its' own Board Secretary, whichever comes first. As the Board hires staff, they will transition duties away from the Division to their own staff.
Discussion Points (Cont’d)

Pursuant to P.L. 2018, c. 55, the Division will be compensated in the same manner currently used to allocate costs to the Police and Firemen’s Retirement System. All costs that are directly attributable to the Police and Firemen’s Retirement System will be billed directly to that system and the Division is working to directly attribute as many costs as possible. Costs that are not directly attributable to the Police and Firemen’s Retirement System will be allocated based on system membership, in the same manner the Division currently allocates costs among the retirement systems.

The Division continues to present items to the Board related to the transition and prepare for the full transition. The Division raises issues to the Board as needed. As examples, the Division has provided draft regulations for the governing of the Police and Firemen’s Retirement System, established state based email accounts, helped draft job descriptions, facilitated the discussion on office space for Board staff, provided a draft contract between the Division of Pensions and Benefits and the new Board, and started working with the Housing and Mortgage Finance Agency and Division of Investments on issues related to the PFRS mortgage program. The Division continues to prepare for the logistics of the Board operating as a separate entity, including working towards separating access to the Police and Firemen’s Retirement System files in the Division’s operating systems.

The Division of Investment worked in conjunction with the Treasurer’s and Governor’s offices to draft proposed investment regulations (State Administrative Code) for review and approval by the PFRS Board. These regulations will provide the authority for permissible investments and investment limitations. The proposed amendments are awaiting action by the PFRS Board. The Division of Investment also drafted amendments to the State Investment Council regulations that are necessary for implementation of P.L. 2018, c.55. It is anticipated that the Council will adopt the new regulations at its May 2019 meeting.

The Division of Investment is also in the process of establishing a separate PFRS account with its custodian bank (State Street). This will allow for the in kind transfer of PFRS' proportionate share of publicly traded securities. Additionally, the Division of Investment is working with the custodian to open over 50 global trading markets through State Street's sub-custodians and the regulatory markets to allow for the transfer of international securities. This process will continue over the next several months with extensive documentation requirements. Moreover, application was made to the IRS and will be made to various global markets to provide for preferential tax treatment in the various markets related to dividend and interest income.

The Division has historically apportioned costs to the various pension plans. The actual method of billing is in the process of being developed.

Lottery Enterprise Contribution Act

13.  P.L.2017, c.98 contributes the State Lottery Enterprise to the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), and the Police and Firemen's Retirement System (PFRS) for a term of 30 years. Under the law, the TPAF, PERS, and PFRS receive a portion of the proceeds of the Lottery Enterprise, based upon their members’ past or present employment in schools and institutions in the State.
Discussion Points (Cont'd)

The law revises the statutory calculation of the annually determined contribution (ADC) by the State to TPAF, PERS and PFRS. The amount determined under the law is annually reduced by the product of an allocation percentage; an adjustment percentage; and a special asset adjustment. For FY 2018 through FY 2022, the adjustment percentage is set at 100 percent for all three systems, and the special asset adjustment is a fixed dollar amount, as follows:

FY 2018: about $1.001 billion
FY 2019: about $1.037 billion
FY 2020: about $1.070 billion
FY 2021: about $1.084 billion
FY 2022: about $1.096 billion.

These amounts, stipulated for the first five fiscal years of the law’s impact, represent an estimate of annual Lottery net receipts. Thus, the law intends that the loss of revenue to the General Fund be offset by an approximately equal reduction in the amount the State would be statutorily required to contribute to the retirement systems. In FY 2023 and thereafter, the special asset adjustment is an amount “determined based on an amortization of the special asset value over the remaining term of the lottery contribution, at the regular interest rate applicable to the retirement systems,” but not to exceed the maximum special asset adjustment.

With respect to the law’s impact on the annual revenue received by the TPAF, PERS and PFRS, in the first five fiscal years, the sum of State-funded employer contributions and lottery net proceeds will be no different than if the bill were not enacted. Thereafter, the sum of State-funded employer contributions and lottery net proceeds should increase, by indeterminate amounts, assuming that lottery net proceeds do not suffer a drastic decline. This result is attained primarily by the change in the adjustment percentage from 100 percent to lower percentages beginning in FY 2023, and the ceiling on the special asset adjustment (which serves as a floor under the ADC).

- **Question:** Please describe and quantify any impact of the Lottery Enterprise Contribution Act on the State’s long term and short term borrowing rates. What was the actual amount of Lottery net proceeds received by the PERS, TPAF, and PFRS in FY 2018? In any year in which the contribution of lottery net proceeds to the retirement systems differs from the special asset adjustment, should there be a subsequent adjustment to the employer’s contribution, particularly if the adjustment exceeds the amount received by the retirement systems?

- **Question:** Please describe and quantify any impact of the Lottery Enterprise Contribution Act on the State’s long term and short term borrowing rates.

*Answer:* The LECA was viewed as a slight credit positive by the credit rating agencies. It is impossible to quantify the exact impact as many other factors influence borrowing rates including, for example: market fluctuations, supply and demand, issue structure, etc.
Discussion Points (Cont’d)

- **Question:** What was the actual amount of Lottery net proceeds received by the PERS, TPAF, and PFRS in FY 2018?

  **Answer:** Please see the chart below.

<table>
<thead>
<tr>
<th>Lottery Enterprise Contribution Act</th>
<th>FY 2018 Net Lottery Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pension Fund</strong></td>
<td><strong>Net Proceeds</strong></td>
</tr>
<tr>
<td>PERS</td>
<td>$205,155,662</td>
</tr>
<tr>
<td>TPAF</td>
<td>759,134,509</td>
</tr>
<tr>
<td>PFRS</td>
<td>11,712,026</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$976,002,197</td>
</tr>
</tbody>
</table>

- **Question:** In any year in which the contribution of lottery net proceeds to the retirement systems differs from the special asset adjustment, should there be a subsequent adjustment to the employer’s contribution, particularly if the adjustment exceeds the amount received by the retirement systems?

  **Answer:** If that situation presents itself, a decision will be made at that time.

**State Asset Financial Advisor**

14a. The FY 2020 budget anticipates $50 million in General Fund revenue from “asset value optimization”. On February 7, 2019, the Department of the Treasury issued a request for qualifications (RFQ) soliciting qualified firms interested in serving as an Asset Financial Advisor (advisor) for the purpose of developing and implementing strategies to maximize the value of State assets, to address funding of the State’s pension plans, and other post-employment benefits and outstanding pension bonds. The assets to be considered are those owned by the State and its independent authorities, such as real property, roads, bridges, transit facilities, and other infrastructure, and other property rights.

The scope of the services being sought includes three phases of work. Phase 1 requires the advisor to conduct a thorough evaluation of all eligible assets for their potential to provide a realizable and reliable funding source through sale, lease, transfer, securitization, or other types of transactions. Phase 1 is anticipated to be completed by May 2019. Phase 2 requires the advisor to: recommend the best option(s) for the asset transfer; finalize a plan to maximize the value of the asset and the mechanism, to accomplish a transfer; and develop legislative, regulatory, and other changes needed to accomplish the transfer. Phase 2 is required to be completed within 90 days following a specific engagement. Phase 3 requires the advisor to undertake, execute, and close the transaction(s) necessary to effectuate a successful financial asset transfer.
Discussion Points (Cont’d)

• **Question:** Please identify each advisor selected pursuant to the RFQ. Has any advisor commenced work on Phase 1 of the scope of services? Have specific assets been assigned to specific advisors for Phase 1 work? Based on the responses to the RFQ and subsequent events, is the Treasurer confident that the State will realize $50 million in FY 2020 from “asset value optimization”?

Answer: Ernst & Young Infrastructure Advisors, LLC ("EY") was recently selected to begin Phase 1. Work has not yet commenced.

• **Question:** Have specific assets been assigned to specific advisors for Phase 1 work?

Answer: Not applicable.

• **Question:** Based on the responses to the RFQ and subsequent events, is the Treasurer confident that the State will realize $50 million in FY 2020 from “asset value optimization”?

Answer: Yes.

14b. The exclusive benefit rule of the Internal Revenue Code requires the assets of the pension plans to exist for the exclusive benefit of the members so that the pension plans qualify for the favorable tax treatment under the Internal Revenue Code. State laws regarding pension plans include the exclusive benefit provisions required by the Internal Revenue Code. This rule does not seem to have posed a barrier to the Lottery enterprise transfer.

• **Question:** Has the Treasurer obtained any legal guidance or other expert advice on the interaction between the exclusive benefit rule and transfer of public assets to State retirement systems that conclusively disqualifies certain assets from being transferred to one or more retirement systems in a manner similar to the Lottery enterprise transfer? If so, please elaborate on that guidance or advice.

Answer: At this time Treasury has not sought legal guidance in regard to the exclusive benefit rule. However, all work on the transfer of State assets will be conducted in conjunction with the Office of the Attorney General.

Actuarial Valuations

15. Every July, actuaries submit actuarial valuations of the State-administered defined benefit retirement systems to the boards of trustees for approval. Government Accounting Standards Board (GASB) Statements 67 and 68 prescribe financial reporting requirements for governmental employers which provide employee pension benefits. GASB 67 disclosure amounts are developed using different methods and assumptions than the statutory calculations that determine actual funding requirements. GASB 67 requires the use of market value of assets versus actuarial value of assets determined via a smoothed recognition of gains and losses; a different actuarial cost method (Entry Age Normal vs. Projected Unit
Discussion Points (Cont'd)

Credit); and a lower blended discount rate if a depletion date is determined. The GASB rules relate only to accounting and financial reporting and do not mandate how governments are to fund their pension plans. Actual employer contributions are developed and calculated in accordance with State law. Depletion dates assumed under GASB 67 do not take into consideration the current phase-in plan (1/10th increase per year until the full contribution begins in FY 2023). The depletion dates based on July 1, 2018 GASB 67 actuarial valuations assume future State contributions at 60 percent of the full amount. The Administration indicates that if depletion dates were determined based on the phase-in plan, depletion dates would be eliminated in all or most of the pension funds.

- **Question:** Please provide a GASB 67 Disclosure Table of the Net Pension Liability/Plan Fiduciary Net Position based on the Actuarial Valuations as of July 1, 2018, and, for comparison, please provide the Statutory Funding Status Pension Fund Actuarial Liabilities and Assets based on the Actuarial Valuations as of July 1, 2018. Please include the estimated GASB 67 depletion date on each chart. For reference, please see charts submitted in response to OLS Interdepartmental Accounts Discussion Point #14 (FY 2019). How did the estimated depletion date for each system change compared to the last valuation? Is the depletion date for any system of sufficient concern to warrant paying more than 70 percent of the full contribution to the system in FY 2020?

- **Question:** Please provide a GASB 67 Disclosure Table of the Net Pension Liability/Plan Fiduciary Net Position based on the Actuarial Valuations as of July 1, 2018, and, for comparison, please provide the Statutory Funding Status Pension Fund Actuarial Liabilities and Assets based on the Actuarial Valuations as of July 1, 2018. Please include the estimated GASB 67 depletion date on each chart. For reference, please see charts submitted in response to OLS Interdepartmental Accounts Discussion Point #14 (FY 2019).

**Answer:** Please see the table below.

- **Question:** How did the estimated depletion date for each system change compared to the last valuation?

**Answer:** Please see the GASB 67 Disclosure table below.
## Discussion Points (Cont’d)

<table>
<thead>
<tr>
<th>GASB 67 Disclosure</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Pension Liability/Plan Fiduciary Net Position (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Based on Actuarial Valuations as of July 1, 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(In Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Plan</td>
<td>Total</td>
<td>Net</td>
<td>Net Position</td>
<td>Depletion</td>
<td>Date</td>
</tr>
<tr>
<td></td>
<td>Pension</td>
<td>Fiduciary</td>
<td>Pension</td>
<td>Liability</td>
<td>as a % of TPL</td>
<td>Valuation</td>
</tr>
<tr>
<td>PERS (2)</td>
<td>$29,472.4</td>
<td>$72,866.2</td>
<td>$43,393.8</td>
<td>40.45%</td>
<td>6/30/2047</td>
<td>6/30/2040</td>
</tr>
<tr>
<td>TPAF</td>
<td>22,991.1</td>
<td>86,797.5</td>
<td>63,808.4</td>
<td>26.49%</td>
<td>6/30/2041</td>
<td>6/30/2034</td>
</tr>
<tr>
<td>PFRRS (3)</td>
<td>27,098.6</td>
<td>46,797.6</td>
<td>19,699.0</td>
<td>57.91%</td>
<td>6/30/2053</td>
<td>6/30/2050</td>
</tr>
<tr>
<td>CP&amp;PF</td>
<td>1.8</td>
<td>5.7</td>
<td>3.9</td>
<td>30.96%</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td>SPRS</td>
<td>1.790.0</td>
<td>4,849.7</td>
<td>3,059.7</td>
<td>35.91%</td>
<td>6/30/2042</td>
<td>6/30/2037</td>
</tr>
<tr>
<td>JRRS</td>
<td>157.7</td>
<td>922.0</td>
<td>754.3</td>
<td>18.18%</td>
<td>6/30/2025</td>
<td>6/30/2023</td>
</tr>
<tr>
<td>POOF</td>
<td>5.2</td>
<td>5.3</td>
<td>0.1</td>
<td>99.24%</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$81,526.8</td>
<td>$212,244.0</td>
<td>$130,717.2</td>
<td>38.41%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Based on market value.
(2) Of the total Net Pension Liability of $43,393.8 million for PERS, $23,704.3 million is the estimated State portion and $19,689.5 million is the estimated Local portion.
(3) Of the total Net Pension Liability of $19,699.0 million for PFRRS, $4,305.4 million is the estimated State portion and $15,393.6 million is the estimated Local portion.
(4) The Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current Plan members.
### Discussion Points (Cont'd)

#### STATUTORY FUNDING STATUS

**PENSION FUND ACTUARIAL LIABILITIES AND ASSETS**

*Actuarial Valuations as of July 1, 2018 (In Millions)*

<table>
<thead>
<tr>
<th>Plan</th>
<th>Actuarial Value of Assets *</th>
<th>Accrued Actuarial Liability</th>
<th>Accrued Actuarial Liability</th>
<th>Funded Value of Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERS</td>
<td>$10,710.5</td>
<td>$23,745.7</td>
<td>$13,036.2</td>
<td>45.1%</td>
</tr>
<tr>
<td>TPAF</td>
<td>36,127.2</td>
<td>60,971.9</td>
<td>24,844.7</td>
<td>59.3%</td>
</tr>
<tr>
<td>PFRS</td>
<td>2,023.5</td>
<td>4,983.7</td>
<td>2,960.2</td>
<td>40.6%</td>
</tr>
<tr>
<td>CP&amp;FPF</td>
<td>2.3</td>
<td>2.2</td>
<td>(0.1)</td>
<td>105.8%</td>
</tr>
<tr>
<td>SFRS</td>
<td>1,939.3</td>
<td>3,430.8</td>
<td>1,491.5</td>
<td>56.5%</td>
</tr>
<tr>
<td>JRS</td>
<td>210.0</td>
<td>670.6</td>
<td>460.6</td>
<td>31.3%</td>
</tr>
<tr>
<td>PPOP</td>
<td>5.2</td>
<td>2.6</td>
<td>(2.6)</td>
<td>201.3%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>51,018.0</strong></td>
<td><strong>93,807.5</strong></td>
<td><strong>42,789.5</strong></td>
<td><strong>54.4%</strong></td>
</tr>
</tbody>
</table>

| Local |                             |                             |                             |                        |
|-------|-----------------------------|-----------------------------|-----------------------------|                        |
| PERS  | 23,264.9                    | 33,103.6                    | 9,838.7                     | 70.3%                  | 22,646.4               |
| PFRS  | 26,109.2                    | 35,523.4                    | 9,414.2                     | 73.5%                  | 25,680.5               |
| **Subtotal** | **49,374.1** | **68,627.0** | **19,252.9** | **71.9%** | **48,325.9** |

| **Total** | **$100,392.1** | **$162,434.5** | **$62,042.4** | **61.8%** | **$84,464.8** |

* Includes estimated present value of Lottery Enterprise for PERS, TPAF and PFRS

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the draft actuarial valuation reports as of July 1, 2018.

**Question:** Is the depletion date for any system of sufficient concern to warrant paying more than 70 percent of the full contribution to the system in FY 2020?

**Answer:** As you can see per the table above, the depletion date for each of the systems improved from 2017 to 2018. As a result, there is not sufficient concern to warrant paying more than 70 percent at this time.

### Disability Insurance

16. **P.L.2010, c.3** eliminated the accidental and ordinary disability retirement for members of the Teachers’ Pension and Annuity Fund (TPAF) and the Public Employees’ Retirement System (PERS) enrolled in the retirement system after May 21, 2010. Instead, the new members of each system are eligible for disability insurance coverage.

**Question:** Please provide the annual expenditures of the disability insurance program to date, under P.L.2010, c.3 for PERS and for TPAF. Please compare the disability insurance benefits to the former disability retirement benefits. Is the State saving money with the disability insurance program? Is the rate
of disability retirements improving under the disability insurance program as compared to the disability pension payments? How does the disability insurance coverage program interact with the workers’ compensation program and the social security offset? Given that the COLA was suspended under P.L.2011, c.78, does disability insurance coverage provide a higher benefit to the disabled member than the disability pension over the long-term? Please provide an example comparing a person under both programs. By how much did the elimination of the disability retirement save each retirement system from an actuarial perspective and in total? What actuarial assumption was changed to reflect the elimination of the disability retirement program?

- **Question:** Please provide the annual expenditures of the disability insurance program to date, under P.L.2010, c.3 for PERS and for TPAF.

**Answer:** Please see the table below.

<table>
<thead>
<tr>
<th>Pension Fund</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERS-State</td>
<td>$2,625,442</td>
<td>$2,862,359</td>
<td>$2,484,564</td>
<td>$2,356,320</td>
</tr>
<tr>
<td>PERS-Local</td>
<td>$4,595,318</td>
<td>$5,840,737</td>
<td>$4,684,752</td>
<td>$4,314,216</td>
</tr>
<tr>
<td>TPAF</td>
<td>$2,449,623</td>
<td>$2,893,572</td>
<td>$2,261,952</td>
<td>$2,078,988</td>
</tr>
<tr>
<td>Total</td>
<td>$9,670,383</td>
<td>$11,596,668</td>
<td>$9,431,268</td>
<td>$8,749,524</td>
</tr>
</tbody>
</table>

*As a result of favorable claims experience, most of the annual premium for FY 2016, FY 2017 and FY 2018 was reimbursed to the State. Premiums are paid to the insurance provider on a monthly basis.
Discussion Points (Cont’d)

- **Question:** Please compare the disability insurance benefits to the former disability retirement benefits.

  **Answer:** Please see the chart below.

<table>
<thead>
<tr>
<th>LTD PROGRAM</th>
<th>PERS/TPAF DISABILITY PROGRAM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SERVICE ELIGIBILITY</strong></td>
<td>One year of continuous service.</td>
</tr>
<tr>
<td><strong>AGE REQUIREMENT</strong></td>
<td>Members 60 and older must prove insurability.</td>
</tr>
<tr>
<td><strong>MEDICAL REQUIREMENT</strong></td>
<td>Totally disabled if 18 months after the onset of LTD, the member is unable to engage in gainful employment.</td>
</tr>
<tr>
<td><strong>EFFECTIVE DATE BENEFITS COMMENCE</strong></td>
<td>After six consecutive months of disability due to an occupational or non-occupational condition.</td>
</tr>
<tr>
<td><strong>BENEFIT CALCULATION</strong></td>
<td>60% of salary. Benefit is converted to regular retirement at age 70.</td>
</tr>
<tr>
<td><strong>OFF-SET</strong></td>
<td>Yes, Workers’ Compensation, Social Security and short-term disability benefits.</td>
</tr>
<tr>
<td><strong>RETURN TO WORK</strong></td>
<td>Rehabilitation is provided along with medical screening to facilitate return to work.</td>
</tr>
</tbody>
</table>

- **Question:** Is the State saving money with the disability insurance program?

  **Answer:** An estimate of the cost savings cannot be determined; however, based on the limited number of claimants receiving LTD benefits, any cost savings to the State would be minimal.
Discussion Points (Cont'd)

- **Question:** Is the rate of disability retirements improving under the disability insurance program as compared to the disability pension payments?

  **Answer:** Fewer disability cases are filed under the LTD program.

- **Question:** How does the disability insurance coverage program interact with the workers' compensation program and the social security offset?

  **Answer:** Monthly benefit is offset by any other periodic benefit the member may be receiving such as Workers' Compensation, short-term disability, or Social Security.

- **Question:** Given that the COLA was suspended under P.L.2011, c.78, does disability insurance coverage provide a higher benefit to the disabled member than the disability pension over the long-term?

  **Answer:** The answer depends on several factors. The benefits are calculated as follows: PERS/TPAF Ordinary Disability = 43.6% of Final Average Salary. Accidental Disability = 72.7% of base salary at the time of the accident.

- **Question:** Please provide an example comparing a person under both programs.

  **Answer:** Please see the chart below.

<table>
<thead>
<tr>
<th>Comparison of Member's Monthly Benefit under LTD and PERS/TPAF Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTD</td>
</tr>
<tr>
<td><strong>$3,284.00</strong></td>
</tr>
</tbody>
</table>

*Member's LTD benefit is offset by $1,999.00 per month due to Social Security Disability benefits. $3,284.00 is the amount payable to the member after the offset per month.

- **Question:** By how much did the elimination of the disability retirement save each retirement system from an actuarial perspective and in total?

  **Answer:** An estimate of the savings is not available.

- **Question:** What actuarial assumption was changed to reflect the elimination of the disability retirement program?

  **Answer:** There was no actuarial assumption change made as a result of this legislation. Actuarial assumptions changes are generally made when the experience investigations are conducted by the actuary to align the assumptions used in the valuations with actual plan experience.
Discussion Points (Cont’d)

Hybrid Pension Plan: Defined Benefit/Cash Balance

17. A hybrid pension plan incorporates elements of both defined benefit and defined contribution plans. Hybrids come in two basic forms: one is a defined benefit plan supplemented by a separate defined contribution plan. The other, combining features of defined benefit and defined contribution plans into a single plan, is known as a cash balance plan. This form provides benefits based partly on the employee’s length of service, as in a defined benefits plan, and partly on the plan’s investment return, as in a defined contribution plans. Cash balance plan retirement benefits are determined by guaranteed employee and employer contributions, a minimum guaranteed investment return, and actuarial assumptions that provide an annual allowance upon retirement. The longer a cash balance plan participants work, the higher the value of their cash balance plan. The investment return portion of a cash balance plan retirement benefit is the minimum guaranteed amount by which the plan assets are increased each year (beyond employee and employer contributions) regardless of the plan’s actual investment return.

• **Question:** Please provide a fiscal impact estimate of establishing a cash balance plan for new public employees (excluding those that would be enrolled in an existing defined contribution plan) and public employees with less than five years of service already enrolled in a State-administered defined benefit retirement systems, using the following assumptions: employee and employer annual contributions of 4 percent of salary; the minimum guaranteed annual interest rate of 4 percent; and mandatory retirement age will be 65; and other actuarial assumptions in place as of July 1, 2018. Please calculate the annual cost of the plan to the State for State employees and employees of local boards of education, respectively, and to local governments. Please also calculate the fiscal impact of the plan on the existing defined benefit state retirement systems, including employer contributions by the State and local governments, the assets and liabilities, the funded ratio, the unfunded actuarially accumulated liability (UAAL), the normal contribution, the total pension obligation. Please provide a 30-year fund projection of the defined benefits system based on the establishment of this cash balance plan.

Answer: An estimate of the proposed plan as described in this question has not yet been developed.

• **Question:** Please discuss the short-term and long-term advantages and disadvantages to the State and local governments as employers, and to the employees that would become members, of creating this or a similar cash balance plan?

Answer: Without the projected cost impact the short and long term advantages and disadvantages cannot be discussed.

EMPLOYEE HEALTH BENEFITS

Effects of P.L.2011, c.78

18. P.L.2011, c.78 made various changes to public employees health benefits in New Jersey including increased member contributions and plan design changes for the State Health Benefits Program (SHBP) and the School Employees’ Health Benefits Program
Discussion Points (Cont'd)

(SEHBP). Specifically, the law required all public employees and certain public retirees to contribute toward the cost of health care benefits coverage based upon a percentage of the projected cost of coverage, referred to as the "premium," based on the type of coverage selected. Annual rate renewal reports include aggregate data on the total cost of employee and retiree health care in a Plan Year (calendar year) and the total premiums (employee and employer contributions) collected.

Aggregate Costs
18.a. P.L.2007, c.103 implemented changes to the State Health Benefits Program (SHBP) to transfer education employees and retirees to a newly established School Employees' Health Benefits Program (SEHBP) to be overseen by a new School Employees' Health Benefits Commission (SEHBC). Teachers and State employees were in different insurance pools. Until PY 2010, SHBP aggregate costs exceeded SEHBP aggregate costs.

P.L.2011, c.78 initiated employee premium sharing to offset rising public employer costs and created SHBP and SEHBP plan design committees to oversee and implement cost controls by adjusting benefits through changes in plan design. Commencing in 2012 and continuing each year thereafter, the SHBP plan design committee adopted various medical and prescription plan design changes to reduce the growth in health care costs. According to the response to OLS Interdepartmental Accounts Discussion Point #17 in FY 2019, projected savings from Chapter 78 since its inception are $3.1 billion over 10 years, or $310 million per year on average. Tables 5a and 5b illustrate the decline in the five year compound annual growth rate in total aggregate costs between PY 2009-PY 2014 and PY 2014-PY 2019 for the SHBP-State, SHBP-local, and SEHBP programs, while plan design changes were being adopted. SEHBP total aggregate costs increased each year until some plan design changes, mostly affecting prescription drug costs, were approved in PY 2016 when the trend reversed.

Table 5a

<table>
<thead>
<tr>
<th>STATE OF NEW JERSEY AON RATE RENEWAL RECOMMENDATION REPORTS</th>
<th>PY 2009 - PY 2010 Aggregate Costs ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Cost</td>
<td></td>
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<tr>
<td>SHBP-State</td>
<td>1,621,900</td>
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<tr>
<td>SHBP-Local</td>
<td>739,600</td>
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<tr>
<td>SEHBP</td>
<td>1,593,380</td>
</tr>
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</table>

Table 5b

<table>
<thead>
<tr>
<th>STATE OF NEW JERSEY AON RATE RENEWAL RECOMMENDATION REPORTS</th>
<th>PY 2014 - PY 2019 Aggregate Costs ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Cost</td>
<td></td>
</tr>
<tr>
<td>SHBP-State</td>
<td>2,199,336</td>
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<tr>
<td>SHBP-Local</td>
<td>1,271,916</td>
</tr>
<tr>
<td>SEHBP</td>
<td>2,462,535</td>
</tr>
</tbody>
</table>

Note: Costs are plan year (calendar year) costs as distinguished from fiscal year budgeted costs. Costs represent active and retiree costs. PY 2018 costs are estimated. PY 2019 costs are projected. CAGR=Compound Annual Growth Rate.
Discussion Points (Cont’d)

- **Question:** Please identify the plan design changes approved for the SHBP and the SEHBP that have the greatest effect on current aggregate costs, briefly explaining their impact and estimating the amount of that impact on PY 2019 costs. For each plan year, commencing with PY 2015, please itemize each plan design change adopted by the SHBP and the SEHBP plan design committees, respectively, the plan years the change affects, and the State, local government and local education impact on aggregate costs associated with each change in each plan year. For each plan year beginning with PY 2015, please itemize each plan design change proposed but not approved, and the impact on aggregate costs by plan year of non-approval. Please estimate the PY 2020 impact of adopting any plan design change proposed to but yet not approved by each plan design committee.

- **Question:** Please identify the plan design changes approved for the SHBP and the SEHBP that have the greatest effect on current aggregate costs, briefly explaining their impact and estimating the amount of that impact on PY 2019 costs. For each plan year, commencing with PY 2015, please itemize each plan design change adopted by the SHBP and the SEHBP plan design committees, respectively, the plan years the change affects, and the State, local government and local education impact on aggregate costs associated with each change in each plan year.

Answer: The SHBP and SEHBP have obtained significant saving by enacting various plan changes since PY 2015. Plan changes such as limits on compound drugs, mandatory generics, formulary management, establishing limits on out-of-network physical therapy reimbursements, and adoption of Medicare Advantage plans have had significant impacts. While it is difficult to precisely quantify the impact of these changes over time, we are seeing a decrease in trends which can be attributed to these plan changes.

- **Question:** For each plan year beginning with PY 2015, please itemize each plan design change proposed but not approved, and the impact on aggregate costs by plan year of non-approval.

Answer: The Plan Design Committees have informal discussions on a periodic basis about a variety of potential reforms. For those discussed but not seriously considered detail analyses were not prepared.

- **Question:** Please estimate the PY 2020 impact of adopting any plan design change proposed to but yet not approved by each plan design committee.

Answer: Currently there are no formal proposals pending.

**Premiums**

18.b. P.L.2011, c.78 required all public employees and certain retirees to contribute toward the cost of health benefits. The cost of coverage is the “premium.” The percentage of the cost of coverage paid by public employers, public employees and certain retirees is the “premium share.” Premiums will differ by coverage plan based on factors such as benefits offered, utilization and costs of services.
Discussion Points (Cont'd)

Recent collective bargaining agreements are reported to save $274 million in PY 2019 and $222 million in PY 2020 by the SHBP reauthorizing plan design changes and by the SEHBP adopting some of these same plan design changes. In addition, the SEHBP established a new "Zero" plan for active members and early retirees, and approved shifting Medicare-eligible retirees to Medicare Advantage plans.

- **Question:** Please provide the new premiums for active employees and retirees associated with each of the new plans, i.e., the new SHBP-State CWA PPO plan and the SEHBP Zero plan. As applied to retirees, are these traditional Medicare plans or Medicare Advantage plans? What is the impact of the new plans on the aggregate premiums previously estimated in PY 2019 for the SHBP-State, SHBP-Local and SEHBP, respectively? In each case how is the impact on aggregate premiums divided between members and employers?

  - **Question:** Please provide the new premiums for active employees and retirees associated with each of the new plans, i.e., the new SHBP-State CWA PPO plan and the SEHBP Zero plan.

Answer: Premiums for plan year 2020 have not been developed at this time.

- **Question:** As applied to retirees, are these traditional Medicare plans or Medicare Advantage plans?

Answer: These plans are not available to Medicare retirees.

- **Question:** What is the impact of the new plans on the aggregate premiums previously estimated in PY 2019 for the SHBP-State, SHBP-Local and SEHBP, respectively?

  - **Question:** In each case how is the impact on aggregate premiums divided between members and employers?

Answer: N/A.

Sunset Provision

18.c. P.L.2011, c.78 phased-in the mandatory employee premium share over a four-year period. After full implementation, the contribution levels became subject to collective bargaining in a manner similar to other negotiable items.

- **Question:** Does the division monitor the terms of premium sharing agreed to by local governments participating in the SHBP and SEHBP? If so, how many in each program have negotiated employee cost sharing that differs from to the premium sharing required by Chapter 78 at full phase-in? In what percentage of those situations are premium shares higher for the employer than under Chapter 78? In what percentage of those situations was an employee premium share completely eliminated? What is the total impact on
Discussion Points (Cont'd)

the cost of employer premium shares for the latest plan year for which this information is available? If all local governments participating in the SHPB and SEHB were paying in accordance with the provisions of Chapter 78 what would the total employee contributions have been each year since the effective date of Chapter 78?

Answer: The Division does not monitor employee contribution rates of participating employers.

• Question: Does the division monitor the terms of premium sharing agreed to by local governments that do not participate in the SHPB and SEHB? If so, please provide the same information requested above.

Answer: No.

Enrollment

20. Aon rate renewal reports show that while SEHB retired enrollees increased by about 15 percent over the last five years, active enrollees decreased by about 36 percent, indicating that active enrollees are declining significantly for reasons other than retirement. The most likely explanation is either a decline in the number of local school districts providing health insurance through the SEHB, or the decision of a few local districts with large numbers of enrollees to shift coverage out of the SEHB. Whichever explanation is correct, the reasons for the change are unknown.

• Question: Can the Division of Pensions and Benefits explain the 36 percent decline in active SEHB enrollees from PY 2014 to PY 2019? When a local school district commences or ends participation in the SEHB, does the division document the extent to which the impact on employer cost is the determining factor? Is it reasonable to conclude that school districts have less expensive options for similar coverage for employees outside the SEHB? Please provide the proportion of total school districts that participated in the SEHB in PY 2011, PY 2015, and PY 2019

Answer: The rating structure of the SEHB is community rated which means that all participating employers pay the same premium regardless of loss ratio. This also results in employers with better loss ratios paying more for coverage than they would on the open market all else being equal. Of the 63 SEHB employers that terminated participation in the program, only four had a loss ratio above 1.0. A loss ratio of 1.0 indicates that your claim costs equal your premium costs; above 1.0 means your claim costs exceed your premiums. Generally SEHB employers leave the program because they can obtain better financial terms outside the SEHB. Below are the number of participating employers by year.

PY11 - 354
PY15 - 385
PY19 - 286

Migration

21. According to the response to an OLS FY 2019 discussion point, because less than 2 percent of the entire subscriber population are enrolled in any one of the lower cost plans,
annual savings from migration of members to those plans are de minimis. The Division of Pensions and Benefits estimates that, subscriber membership in the most popular lower-cost plan will increase to between 2.7 percent and 2.9 percent of total subscribers in PY 2019. While annual savings from migration may be small, data show that about $45 million was saved in PY 2018 by the availability of lower-cost plans.

The SEHBP recently announced the introduction of a new lower-cost “Zero Plan” for its active members. The plan requires no co-payments, encourages in-network utilization through higher out-of-network costs, and revises the prescription drug formulary.

• **Question:** What is the most popular lower cost option plan, and what percentage of total subscribers migrated to that plan? What is the actuarial value of that plan? What is the migration projection (number of members migrating) for PY 2020 and the projected plan year savings from migration? Has the division considered generally or selectively encouraging enrollees to consider lower cost option plans as a savings initiative?

**Answer:** The Horizon Omnia plan is the most popular lower cost plan. It has an actuarial value of 91%. It represents 1.4% of total enrollment across the SHBP/SEHBP (See chart below.) The SHBP PDC has encouraged subscribers to enroll in the plan by providing monetary incentives for enrollment over the past several years. Please see the tables below.
## Discussion Points (Cont'd)

### Local Gov | Education | State | Total Enrollment | Active
---|---|---|---|---
NJ DIRECT15 | 9,322 | 14,825 | 66,213 | 90,360 47.3%
NJ DIRECT10 | 26,046 | 27,512 | 0 | 53,558 28.1%
AETNA HEALTH | 0 | 0 | 8,814 | 8,814 4.6%
AETNA FREEDOM15 | 477 | 589 | 5,908 | 6,974 3.7%
AETNA FREEDOM10 | 3,913 | 1,536 | 0 | 5,449 2.9%
NJ DIRECT1525 | 3,194 | 504 | 1,599 | 5,297 2.8%
AETNA HMO | 3,006 | 1,269 | 0 | 4,275 2.2%
NJ DIRECT2030 | 1,328 | 409 | 1,221 | 2,958 1.5%
HORIZON OMNIA HEALTH | 670 | 0 | 2,031 | 2,701 1.4%
NJ DIRECT ZERO | 0 | 2,090 | 0 | 2,090 1.1%
AETNA FREEDOM1525 | 417 | 132 | 1,069 | 1,618 0.8%
AETNA LIBERTY | 363 | 0 | 1,120 | 1,483 0.8%
HORIZON HMO | 186 | 234 | 992 | 1,412 0.7%
AETNA FREEDOM2030 | 162 | 115 | 952 | 1,229 0.6%
NJ DIRECT2035 | 178 | 315 | 568 | 1,061 0.6%
AETNA FREEDOM2035 | 43 | 102 | 548 | 693 0.4%
AETNA FREEDOM ZERO | 0 | 229 | 0 | 229 0.1%
HORIZON HMO2030 | 0 | 135 | 0 | 135 0.1%
NJ DIRECT HD4000 | 33 | 0 | 87 | 120 0.1%
HORIZON HMO2035 | 0 | 118 | 0 | 118 0.1%
NJ DIRECT HD1500 | 4 | 8 | 63 | 75 0.0%
AETNA VALUE HD4000 | 5 | 0 | 68 | 73 0.0%
AETNA VALUE HD1500 | 0 | 3 | 47 | 50 0.0%
HORIZON HMO1525 | 0 | 42 | 0 | 42 0.0%
AETNA HMO1525 | 0 | 38 | 0 | 38 0.0%
AETNA HMO2030 | 0 | 30 | 0 | 30 0.0%
AETNA HMO2035 | 0 | 29 | 0 | 29 0.0%
---|---|---|---|---
49,347 | 50,264 | 91,300 | 190,911

### ALL RETIRED

### Local Gov | Education | State | Total Enrollment
---|---|---|---
AETNA FREEDOM10 | 14,351 | 66,431 | 10,260 | 91,042 47.2%
AETNA FREEDOM15 | 2,876 | 6,785 | 16,902 | 25,563 13.8%
NJ DIRECT10 | 7,911 | 16,193 | 839 | 24,943 12.9%
AETNA HMO | 2,504 | 5,539 | 9,398 | 17,541 9.1%
NJ DIRECT1525 | 1,390 | 12,437 | 2,483 | 16,310 8.5%
NJ DIRECT15 | 1,777 | 1,118 | 11,737 | 14,630 7.6%
NJ DIRECT2030 | 434 | 93 | 60 | 587 0.3%
HORIZON HMO | 71 | 188 | 121 | 380 0.2%
AETNA HMO2030 | 220 | 6 | 9 | 235 0.1%
AETNA HMO1525 | 104 | 29 | 33 | 166 0.1%
HORIZON HMO2030 | 106 | 15 | 2 | 123 0.1%
HORIZON HMO1525 | 28 | 44 | 21 | 93 0.0%
AETNA FREEDOM2030 | 70 | 6 | 6 | 82 0.0%
AETNA FREEDOM1525 | 29 | 7 | 9 | 45 0.0%
NJ DIRECT HD4000 | 14 | 14 | 14 | 42 0.0%
AETNA VALUE HD4000 | 10 | 3 | 5 | 18 0.0%
NJ DIRECT ZERO | 0 | 16 | 0 | 16 0.0%
AETNA FREEDOM ZERO | 0 | 4 | 0 | 4 0.0%
---|---|---|---
31,995 | 108,926 | 51,899 | 192,820
Discussion Points (Cont’d)

Waivers

22. N.J.S.A. 52:14-17.31a permits public employees who are eligible for other health care coverage to waive coverage under the SHBP and the SEHBP. Public employers may at their option pay an employee up to 25 percent of the employer’s cost of coverage, or $5,000, as an incentive to waive coverage. Average savings from waived health care coverage was about $8,600 per member in FY 2014.

• Question: Please indicate for each of the three health benefit programs the number of annual waivers for each plan from 2015 to 2019 and the resultant annual net savings. In what percentage of member/spouse and family contract waivers is the enrollee waiving coverage the lower paid of two public employees? Does this percentage suggest that the incentive could be modified in these cases to increase net savings, and if so, how?

Answer: Net annual savings is impossible to determine because the Division does not receive information about the incentive payment paid to the employee nor the employee contribution toward health coverage that the employee avoids. In addition, for those employees who waive coverage due to other SHBP or SEHBP coverage, there would be no cost savings to the plan.

SEHBP and SHBP Plan Design Changes

23.a. A new SEHBP coverage plan for active members and early retirees was recently approved, called the “Zero” Plan. The Zero Plan has the following benefits:

Out-of-network costs will be paid at 200 percent of the Medicare rate
Elimination of copays for primary care physicians and specialists
Increase in emergency room copays to $50/visit (fee waived if admitted)
Limit chiropractic and acupuncture therapies from out-of-network coverage
Physical therapy out-of-network reimbursement change
Mandatory generic prescription drugs (SEHBP will pay for cost of generic equivalent; members pay cost difference if they choose brand-name drug)
Implementation of closed formulary
Increased incentive for NJWELL program participation ($500 per subscriber)

According to the Division of Pensions and Benefits, the Zero Plan has an actuarial value of 99 percent and a current enrollment of 5,000 teachers, or five percent, so far, for Plan Year 2019. Rate Renewal Reports indicate that the Zero Plan will have annual premiums for active teachers of $11,360 for single coverage and $32,490 for family coverage, 14.3 percent lower than PPO10 plan premiums and 7 percent higher than SHBP PPO 15 plans. According to Horizon, the NJDIRECT networks for the Zero Plan and the PPO 10 plan are identical. The same is true for the Aetna Zero and Aetna PPO 10 plans’ networks.

• Question: What are the expectations for “migration” to the Zero plan? What is the impact of the availability of the new plan on employer costs in FY 2020 and over the next several years? If that impact is not a cost decrease, how is the approval of the plan consistent with efforts to control health benefit costs?
Discussion Points (Cont’d)

Answer: We expect enrollment to increase to 15% by 2023, but savings estimates have not yet been developed. Since less than 5% of SEHBP plan subscribers enrolled in the plan, the savings are not significant.

- **Question:** What is the minimum value of the SEHBP Zero plan, i.e., the percentage of plan value paid by the employer, as measured to determine compliance with the ACA minimum value requirement of a 60 percent employer share?

Answer: The Zero plan is above the 60% ACA minimum value requirement.

- **Question:** Are the SEHBP Zero plan premiums low enough to avoid imposition of the Cadillac Tax under the ACA when it takes effect in FY 2022?

Answer: No.

- **Question:** What is the projected cost of reimbursing PPO Medicare Retirees up to $250 for physician and specialist office visits?

Answer: If all eligible retirees were reimbursed the full $250, the estimated cost would be $27 million.

- **Question:** What is the projected cost of increasing the NJWELL gift card from $250 to $500 for SEHBP active members and early retirees, and what is the projected cost of offering a $250 NJWELL gift card to eligible SEHBP Medicare retirees? Were these benefits offered to SHBP-State and SHBP-local accordingly? If not, please explain why they were not.

Answer: The estimated cost of increasing the NJ Well is $200,000 based on 10% of the eligible population meeting the reward criteria. The SHBP PDC did not pass a resolution to offer the increased incentive to their members.

23.b. In March 2018, the Administration announced that collective bargaining agreements with the CWA resulted in a new PPO plan that will replace NJDIRECT 15, the SHBP-State plan with the highest enrollment. The new PPO’s actuarial value of 95 percent is lower than that of (NJDIRECT 15), 97 percent. The most significant savings to the SHBP-State program are to be achieved by reducing out-network reimbursements by about 50 percent. This is due to basing reimbursements on the Center for Medicare and Medicaid Services (CMS) price index instead the “Fair Health” price index, and then reducing the reimbursement rate. Other savings are from increasing prescription drug co-payments. The savings to the SHBP-State were estimated at $70 million in FY 2020, if the plan is extended to enrollees other than CWA members.

- **Question:** Please explain the comparison between 90 percent of Fair Health and 350 percent of CMS. What is the comparable Fair Health rate for 175 percent of CMS? Will the reduction in the out-of-network reimbursement rate encourage balance billing by providers when members choose to utilize out-of-network providers? If so, please illustrate the impact on members for procedures frequently provided out of network. Are there any mechanisms in place to help
Discussion Points (Cont’d)

members inadvertently using out-of-network providers? Is the new CWA PPO network the same network as the NJDIRECT network?

- **Question:** Please explain the comparison between 90 percent of Fair Health and 350 percent of CMS. What is the comparable Fair Health rate for 175 percent of CMS?

Answer: The Division does not have this information. A comparison of FairHealth and CMS would not be accurate because FairHealth is based on what providers actually charge whereas CMS is based on a resource based relative value system (RBRVS). RBRVS is based on resources physicians use for a particular service or procedure and their value. Therefore any multiplier of CMS will have substantial variations compared to marketplace based charges.

- **Question:** Will the reduction in the out-of-network reimbursement rate encourage balance billing by providers when members choose to utilize out-of-network providers?

Answer: The Division cannot estimate what out-of-network (OON) providers will balance bill members.

- **Question:** If so, please illustrate the impact on members for procedures frequently provided out of network. Are there any mechanisms in place to help members inadvertently using out-of-network providers?

Answer: PL 2018, C32 provides protections for members who receive “surprise” bills from OON providers.

- **Question:** Is the new CWA PPO network the same network as the NJDIRECT network?

Answer: Yes

- **Question:** What portion of the estimated $70 million in savings results from CWA member enrollees, and what proportion is dependent on extension to one-CWA member enrollees? What steps have been taken to extend the plan beyond CWA members?

Answer: The savings estimates were not broken down between union groups. The savings estimates assume that all State employees are eligible for the new plan. The plan will be available to all employees once all of the unions have settled their contracts.

- **Question:** Are the premiums in the new CWA PPO plan low enough to avoid imposition of the Cadillac Tax under the ACA when it takes effect in FY 2022?

Answer: Although the premiums have not been developed, it is unlikely they will be low enough to avoid the Cadillac Tax.
Discussion Points (Cont’d)

23.c. The new CWA PPO plan calculates the employee premium share as a percentage of salary rather than the Chapter 78 requirement that most employees pay a percentage of the plan premium.

- **Question:** What was the rationale behind basing premium shares on percentage of pay in general and the specific percentages at each salary level? Was there a break-even or other scenario in which a percentage of pay formula would cost employees more than a percentage of premium formula? What other factors were taken into account in the determination? What is the impact of the new plan on total first full year employee contributions compared to contributions under NJDIRECT 15 had no plan changes been made?

**Answer:** The change in employee contribution levels was developed through negotiations with bargaining groups.

- **Question:** What is the minimum value of the new CWA PPO plan, i.e., the percentage of plan value paid by the employer, as measured to determine compliance with the ACA minimum value requirement of a 60 percent employer share?

**Answer:** The new plan will meet the minimum value requirement of the ACA.

Richness of Plan Design

24. Certain coverage plans in the SEHB and the SHBP-Local plans are “richer” than those in the SHBP – State, evidenced by the actuarial value designations of the plans. This is primarily because those PPO 10 plans provide more generous benefits than the SHBP PPO 15 plans. The SEHB and SHBP-Local PPO 10 plans have actuarial values of 98 percent while the SHBP – State PPO 15 plan has an actuarial value of 97 percent. Three benefits that are more generous under PPO 10 include an open formulary, non-mandatory generic prescription fills, and emergency room copays of $25, instead of $100. The SHBP does not offer PPO 10 plans to State employees.

- **Question:** If the PPO 10 plans in the SEHB and SHBP – Local were eliminated and all SEHB and SHBP–local members were transferred to plans identical to the new CWA PPO plans in the SHBP-State program, what would be the aggregate savings to local education employers and other local government employers, respectively? What would be the savings to the State for local education retirees?

**Answer:** Those estimates have not been developed.

Section 1557 of the Affordable Care Act

25. The **Affordable Care Act** (ACA) currently prohibits all self-funded group health plans from discriminating in favor of highly compensated employees with regard to health benefits, while allowing employers to charge lower-earning employees a smaller premium share than higher-earning employees. The CWA PPO plan bases premium share on a percentage of salary instead of as a percentage of premium, with some enrollees earning above $100,000
Discussion Points (Cont’d)

per year paying a smaller percentage of salary than others earning less than $100,000 per year.

- **Question:** Will the CWA PPO plan cause the State to be in violation of section 1557 of the ACA with regard to the manner in which employee groups are treated differently based on compensation and benefits provided? Please explain the reason(s) for your conclusion.

Answer: No. Benefit eligibility is not determined based on compensation nor do highly compensated employees receive better benefits.

26. According to the FY 2020 Budget, plan design changes shifting Medicare eligible retirees to Medicare Advantage Plans are estimated to save $143 million in the Interdepartmental Accounts budget and $243 million in the Department of Education budget.

- **Question:** Why are the Medicare Advantage plans so much less expensive than the traditional Medicare Supplement plans? What were the factors underlying the decision to shift all Medicare eligible retirees into Aetna Medicare Advantage plans? What were the financial incentives offered by Aetna to win the State’s Medicare Advantage business? Please explain why some traditional Medicare Advantage plans offered by the SHBP and the SEHBP, such as the 2035 plans, are not able to be converted to Medicare Advantage Plans. What are the underlying economic assumptions preventing the conversion?

- **Question:** Why are the Medicare Advantage plans so much less expensive than the traditional Medicare Supplement plans? What were the factors underlying the decision to shift all Medicare eligible retirees into Aetna Medicare Advantage plans?

Answer: Traditional Medicare supplement plans pay the cost of care after Medicare pays the first approximately 80% of the cost of care. These plans are not managed and have a high degree of inefficiency (high emergency room usage, high hospital admission and re-admission rates, and poor care coordination). Medicare Advantage plans instead receive payments from Medicare to take on the full risk of the cost of care. Many health plans are able to manage care more efficiently and effectively than traditional Medicare. The SHBP/SEHBP was able to achieve cost savings due to low premiums paid to Medicare Advantage insurers who keep costs low with high-quality, effective care management. These insurers are held to strict minimum loss ratio standards to prevent excessive profits (both at the Federal level as well as through contractual agreements with the SHBP/SEHBP). It was a decision made by the plan design committees based on cost savings with substantially similar benefits.

- **Question:** What were the financial incentives offered by Aetna to win the State’s Medicare Advantage business?

Answer: Aetna was the successful bidder in a public procurement process. The contracts are available on the Division of Purchase and Property’s website.
https://www.nj/treasury/purchase/
Discussion Points (Cont’d)

- **Question:** Please explain why some traditional Medicare Advantage plans offered by the SHBP and the SEHBP, such as the 2035 plans, are not able to be converted to Medicare Advantage Plans.

  Answer: The plan design committees wanted to provide Medicare retirees the choice between a Medicare Advantage plan and a supplemental plan.

- **Question:** What are the underlying economic assumptions preventing the conversion?

  Answer: There were no underlying economic assumptions preventing the conversions. It was a decision by the PDCs to not offer Medicare supplemental plans identical to those converted to Medicare Advantage plans.

Children’s Health Insurance Program (CHIP)

26. The ACA permits States to extend CHIP eligibility to children of State employees who are otherwise eligible under the State child health plan if two conditions are met: the Maintenance of Agency Contribution condition, requiring the State to maintain health insurance coverage for dependent children at the 1997, adjusted for inflation; and the Hardship condition, where the combination of premiums and cost-sharing under a State health insurance plan exceeds five percent of a family’s income.

    In response to an FY 2013 OLS Discussion Point, the Division of Pensions and Benefits indicated it had reviewed this option but postponed more thorough evaluation. According to Governing.com six states were approved to enroll eligible employees’ children in CHIP: Alabama, Georgia, Kentucky, Montana, Pennsylvania, and Texas. In Georgia, this saved $32 million in employee health benefit costs. Alabama estimated that it would save “millions” by enrolling 6,700 children.

- **Question:** Has the division evaluated shifting eligible child dependents under the SHBP/SEHBP to CHIP? If so, what conclusions have been drawn? If not, is there a timetable for evaluating this option? Please discuss the feasibility and the impact on State and local spending of requiring eligible children of State, local government, and local education public employees to enroll in CHIP.

  Answer: The Division has not investigated this matter.

Rate Renewal Reports

27. Each plan year the Rate Renewal Reports for the SHBP and the SEHBP identify benefit changes, federal health care reform, state mandates, and federal mandates that will have a fiscal impact on State, local and local education budgets. Plan Year 2019 includes cost increases from two State mandates: female contraceptives and 3-D mammography/breast cancer screening.
Discussion Points (Cont'd)

• **Question:** Please quantify the anticipated SHBP State and local fiscal impacts and the SEHBP local education fiscal impact for each of the two State mandates: female contraceptives and 3-D Mammography.

**Answer:** Since these services were already covered under the SHBP/SEHBP, the Division did not anticipate any increased cost to the plans as a result of the passage of PL 2017, c241 and c305.

**P.L.2017, c.28; Substance Use Disorders and Opioid Use**

28. **P.L.2017, c.28** requires health insurance coverage for substance use disorders and regulates opioids and certain other prescription drugs. The law requires insurers to provide unlimited benefits for in-patient and out-patient treatment of substance use disorders at in-network facilities. In cases of acute pain, the law limits an initial opioid drug prescription to a five-day supply and imposes other procedural requirements.

In response to an OLS FY 2019 Discussion Point, the department estimated that based on utilization changes since inception, the law caused incremental costs of $3 million in Plan Year 2018, $3.4 million in 2019 and $3.8 million in 2020. The department also indicated that the costs for utilization management services for substance abuse and mental health are not tracked separately from other medical utilization management services. The SHBP's and the SEHBP's current PBM, Optum/Rx, has a comprehensive opioid management solution in place to manage controlled substances in an effective manner. The evidence-based clinical rules help mitigate opioid abuse before it occurs, identify and intervene with at-risk and high-risk consumers and support those with dependency through recovery.

• **Question:** Please discuss the utilization trend over the past two years since this law became effective. How has the utilization trend changed the outlook for addiction abatement? Has the law encouraged state employees with addiction to seek treatment? Please compare the utilization rate between alcohol addiction and opioid addiction. What is the demand for in-patient versus out-patient treatment and how has this changed since this law became effective?

**Answer:** An analysis of the utilization trends, since the passage of this legislation has not been conducted. However, analysis will be sought with the assistance of the health benefit consultant and SHBP and SEHBP administrators.

**Out-Of-Network Claims and Costs**

29. Based on data provided to the OLS, about 20 to 25 percent of all State, local, and local education health insurance claims are for out-of-network services. Recent Plan Year 2019 SEHBP plan design changes reduce out-of-network reimbursement rates from 90 percent of “Fair Health” to 200 percent of Centers for Medicaid and Medicare Services (CMS) for the new Zero Plans. Out-of-Network reimbursement rates for other SEHBP plans were not changed. Based on an estimate of out-of-network claims in the aggregate, 90 percent of Fair Health is roughly equivalent to 350 percent of CMS. Using this metric, reimbursing the out-of-network providers at 200 percent of CMS instead of 90 percent of Fair Health should save approximately 43 percent in out-of-network costs to the plan.
Discussion Points (Cont'd)

- **Question:** How much would boards of education save in reimbursements for out-of-network services if the out-of-network reimbursement rate for all plans were reduced from 90 percent of Fair Health to 200 percent of CMS? How would this affect the demand for out-of-network service? What is the current average aggregate reimbursement rate for in-network services as a percentage of CMS? Does the division have any evidence that previous plan design changes to lower out-of-network service costs resulted in providers becoming in-network? Please elaborate.

**Answer:** Any change in out-of-network reimbursement levels should have an impact on member behavior and increase in-network utilization. The reimbursement rate for in-network and out-of-network services varies by region and service. On average in-network reimbursement levels range between 100% and 175% of CMS and out-of-network reimbursements averaging 220% and 375% of CMS.

**Pharmacy Benefits Manager – Direct and Indirect Reimbursements (DIR)**

30. In November 2018, the Centers for Medicare and Medicaid Services (CMS) issued proposed Medicare Part D policy change (CMS-4180-P), requiring Part D plans to recognize the value of manufacturer rebates and pharmacy payments in retail prescription prices at the point of sale, in order to reduce retiree costs. The OLS notes that unlike most Medicare retirees, New Jersey state and local retirees eligible for Medicare are covered by a large employer-sponsored post-retirement medical benefits (PRMB) program. Reductions in the cost of prescription drugs for those retirees are accomplished in the annual negotiations with the pharmacy benefit manager (PBM). Reductions in prescription drug prices at the point of sale for Medicare retirees in the SHBP and the SEHBP would be inefficient and less effective.

Assembly Bill No. 3717 of 2018 would prohibit pharmacy benefit managers from making certain retroactive reductions in claims payments to pharmacies and require pharmacy benefit managers to disclose certain product information to pharmacies.

- **Question:** How would this rule, if approved and finalized, affect the Medicare retirees enrolled in SHBP and the SEHBP? How would it affect SHBP and the SEHBP prescription drug costs? Would Medicare Advantage insurance rates for the SHBP and the SEHBP increase as a result of this change? Please explain. What would the total fiscal effects of A-3717 of 2018 be if enacted? Please explain how the bill would affect the claims adjudication process and spot audits.

**Answer:** The current pharmacy Direct or Indirect Remuneration (DIR) price concessions are used to support the incentive based payments to network pharmacies based on quality programs ranging from drug adherence, high cost specialty drug adherence, and overall member satisfaction based on National Provider Score (NPS) scores. These programs provide necessary focus on quality metrics that help improve the overall health of members and reduce the cost of care across the care continuum. PBMs negotiate DIR with pharmacies to reflect how they performed on contractually agreed-upon measures such as generic substitution rates, adherence rates, etc. Provisions to require unwaivable terms and conditions taken together with the restrictive DIR approach would end PBMs’ abilities to negotiate pay for performance based on individual pharmacy capabilities. This would impede efforts to improve quality of care and services.
Discussion Points (Cont’d)

Third Party Administrators

32. According to the New Jersey Doctor-Patient Alliance, an association of health care professionals, "The State Health Benefits Plan can save hundreds of millions of dollars a year by eliminating hidden fees and commissions paid to insurance companies in their roles as Third Party Administrators (TPAs), specifically cost containment, commissions/network access fees, retention allocations, cross plan offsets/overpayment refund demands, fee forgiveness protocols, and not legitimate preferred provider discounts." In response to an OLS Discussion Point in FY 2019, the Division of Pensions and Benefits clarified administrative services only (ASO) fees. The ASO fees paid by the SHBP/SEHBP to the TPAs include fees for general administration, claim administration, network management, medical management (precertification, concurrent review, discharge planning, case management), and disease management (coronary artery disease, heart failure, COPD, asthma, chronic kidney disease, diabetes, etc.). ASOs are paid on an employee-per-month rate. In addition, the SHBP and the SEHBP pay TPAs for a number of other services including: a 24-hour nurse line, which aids in reducing non-emergent use of the emergency room; radiology management which directs members to the most cost effective radiology service settings; pain management to reduce misuse of pain management services; medical specialty drug management services to guide injectable drug administration to the most economic and clinically appropriate site of services; care coordination assistance to physician group partners to manage better patient care to avoid acute episodes; and wellness program support.

<table>
<thead>
<tr>
<th>Table 7</th>
<th>ADMINISTRATIVE SERVICES ONLY FEES PY 2015 – PY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aetna ($)</td>
</tr>
<tr>
<td></td>
<td>ASO Fees</td>
</tr>
<tr>
<td>2015</td>
<td>21,495,37</td>
</tr>
<tr>
<td>2016</td>
<td>20,764,22</td>
</tr>
<tr>
<td>2017</td>
<td>21,434,00</td>
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<tr>
<td>2018</td>
<td>20,470,85</td>
</tr>
<tr>
<td>2019</td>
<td>21,434,00</td>
</tr>
</tbody>
</table>

*Question:* Please provide, in Table 7, the total amount paid to each TPA in administrative fees for the SHBP and the SEHBP for 2018 and 2019. What is the TPA charge set forth in the ASO that is submitted by the SHBP/SEHBP in the Federal Annual Return/Report of Employee Benefit Plan Form 5500 for filing with the United States Department of the Treasury, Internal Revenue Service, and the Department of Labor, Pension and Welfare Benefits Administration? Please provide a copy of the most recent ASO contract.
Discussion Points (Cont'd)

Answer: The Division does not file Form 5500. The ASO contracts are available on the Division of Purchase and Property's website: https://www.nj.gov/treasury/purchase/

- **Question:** Does the division agree with the assertions of the New Jersey Doctor-Patient Alliance that there are hidden fees in TPA contracts that total hundreds of millions of dollars which could be reduced? If so, is the division developing a plan or strategy to achieve those savings? Please elaborate. Has the division studied the terms and conditions of agreements between other large public sector self-insured health insurance programs and TPAs to determine if its TPA agreements are consistent? If so, what are the division's conclusions?

Answer: The medical plan contracts are currently advertised for bid. Any discussion of the content of the bid or the Division's intentions could jeopardize the integrity of the bid process.

Dependent Eligibility Verification Audit

33. In December 2018, the Division of Pensions and Benefits notified members of the SHBP and the SEHBP that it would be conducting the second periodic Dependent Eligibility Verification Audit (DEVA). A DEVA requires every enrollee to provide legal documentation verifying a dependent's relationship to the subscriber. The first DEVA was conducted in CY 2009 and identified 5,335 ineligible dependents; 7,576 dependents who were deemed ineligible because they did not respond or supplied insufficient documentation; and 4,400 who declared themselves ineligible for coverage for total savings of $25.5 million. In order to encourage self-identification of ineligible dependents, amnesty was provided to individuals who identified ineligible dependents. Therefore, no attempt was made to seek reimbursement from those individuals. The 2019 audit is structured in the same manner as the 2009 audit; subscribers who self-identify their ineligible dependents will have their ineligible dependents be removed with no consequence. If a subscriber does not remove ineligible dependents and the dependent remains unverified through the DEVA, coverage will be terminated for that individual and further action may be taken.

- **Question:** What is the status of the 2019 audit? Please provide preliminary or final results of the 2019 DEVA in terms of the number of people who: were found to ineligible dependents, did not respond and coverage was terminated, supplied insufficient information and coverage was terminated, and self-identified? What is the estimated amount of savings anticipated to be realized through the DEVA?

- **Question:** What is the status of the 2019 audit? Please provide preliminary or final results of the 2019 DEVA in terms of the number of people who: were found to ineligible dependents, did not respond and coverage was terminated, supplied insufficient information and coverage was terminated, and self-identified?

Answer: The DEVA is ongoing and final results are not available at this time.
Discussion Points (Cont’d)

- **Question:** What is the estimated amount of savings anticipated to be realized through the DEVA?

  Answer: Budget savings of $60.6 million.

**Optum Rx Contract**

34. Pursuant to judicial proceedings the State must re-bid its contract for pharmacy benefits management. The current vendor, Optum Rx, continues to provide services under the contract until the new contract is awarded, which is expected to take place effective with calendar year 2020. The Executive attributes $160 million in reduced costs in FY 2020 to “improving procurement methodology”, at least in part in relation to re-bidding the contract.

- **Question:** Please provide a progress report on rebidding and awarding a new pharmacy benefits management contract for the state health plans. Is the current vendor precluded from bidding on the new contract? What portion of the $160 million in lower costs from improving procurement methodology is an incremental FY 2020 savings due to awarding a new contract as of January 1, 2020? What does that savings increase to on a full year basis?

- **Question:** Please provide a progress report on rebidding and awarding a new pharmacy benefits management contract for the state health plans.

  Answer: Bids are due May 7 and are under evaluation.

- **Question:** Is the current vendor precluded from bidding on the new contract?

  Answer: No.

- **Question:** What portion of the $160 million in lower costs from improving procurement methodology is an incremental FY 2020 savings due to awarding a new contract as of January 1, 2020? What does that savings increase to on a full year basis?

  Answer: The $160 million is our best estimate of the savings that will be achieved from awarding new contracts for prescription drugs and health benefits.

- **Question:** What does that savings increase to on a full year basis?

  Answer: The $160 million in savings is our best estimate for FY 2020. Projected savings for years beyond will be provided once the contracts are awarded.

**OTHER INTERDEPARTMENTAL ACCOUNTS**

**Tax and Revenue Anticipation Notes**

35. 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,
Discussion Points (Cont'd)

when cash spending outpaces cash collection. This situation largely results from the need to expend significant sums on local aid in the first two quarters of the year, before major tax collections are received in the last two fiscal quarters of the year. It is exacerbated by low surpluses as a percentage of total appropriations.

For FY 2018, there were two issuances. The first issuance was on August 31, 2017 with aggregate proceeds of $900,000,000 and net proceeds of $899,955,000 after bank counsel fees were deducted. The estimated interest payable due April 13, 2018 was $11,847,452. The second issuance was on February 22, 2018 with aggregate proceeds of $600,000,000 and net proceeds of $599,990,000 after bank counsel proceeds were deducted. The total estimated interest for both issuances was $15,772,438.

The FY 2020 Governor's Budget proposes an appropriation of $6 million for Interest on Short Term Notes. Thus far in FY 2019, the State has issued $1.5 billion in tax and revenue anticipation notes under a maximum $2 billion Note Purchase Contract with Wells Fargo Bank, National Association. The FY 2020 Governor's budget indicates that the borrowing costs of the 2019 TRANS are estimated to be about $21 million, $15 million above the original appropriation. The expenditures for interest on short term borrowing in FY 2018 of $15.8 million were approximately $9.8 million above the original appropriation of $6 million.

• Question: Please provide the financial details of the Note Purchase Contract with Wells Fargo. Please report the estimated FY 2019 costs of cash flow borrowing, distinguishing between interest and fees. What projections of line of credit use and tax and revenue anticipation note issuance (par amount and date of sale), total and net interest costs, nominal interest rate and effective interest rate, were assumed when determining to recommend an appropriation of $6 million in FY 2020?

Answer: For FY 2019, there were two draws, with costs as follows:

August 30, 2018 Draw:
Proceeds $1,000,000,000
Estimated interest payable as of 4/24/19: $17,888,356.16

December 13, 2018 Draw:
Proceeds $500,000,000
Estimated interest payable as of 4/24: $6,043,013.70
Total estimated interest (both draws): $23,931,369.86

Regarding FY 2020, the amount of borrowing is yet to be determined.

• Question: Please discuss the difference in cash flow projections between FY 2019 and FY 2020 and the need to borrow for cash flow purposes. What are the most significant changes in terms of the impact on the need to borrow for cash flow purposes?

Answer: The fiscal year 2020 cash flow will not be "useable" for cash flow borrowing purposes until the final form of the Appropriations Act becomes clearer. At this time, we cannot determine the significance of any changes.
Discussion Points (Cont’d)

SALARY INCREASES AND OTHER BENEFITS

Salary Negotiations and Contract Settlements

36. On May 1, 2018, the State concluded contract negotiations with the Communications Workers of America (CWA), which represents the largest number of unionized State employees, for the period July 1, 2015 – June 30, 2019, offering full increments retroactive to the beginning of the contract and 2 percent across-the-board increases for the final two years of the contract, (FY 2018 and FY 2019). The State cost of the contract was estimated by the Executive at about $150 million over the final two years.

According to union sources, the State concluded contract negotiations with the CWA for the period July 1, 2019 - June 30, 2023. The contract is anticipated to provide full increments, which will continue to accrue after contract expiration, and across the board increases as follows:

- 2 percent effective the first full pay period after October 1, 2019
- 2 percent effective the first full pay period after July 1, 2020
- 2 percent effective the first full pay period after July 1, 2021
- 2 percent effective the first full pay period after April 1, 2022

**Question:** Please confirm whether union reports of the State’s contract offer to the CWA, specifically the offer for increments and wage increases, are accurate. What are the other significant differences in the contract offer compared to the contract that will expire June 30, 2019? What is the estimated cost of the contract in FY 2020, FY 2021, FY 2022, and FY 2023 respectively? Does the FY 2020 budget make adequate provision for the impact of the salary increases in the contract, respectively?

Answer: Significant differences between the most recently settled CWA contract (FY20-FY23) and the last one (FY16-FY19) concern the across-the-board (ATB) increases (four ATB increases during the new contract term), the bonus payments (eligibility and amounts are different), and the creation of a new SHBP PPO health plan. The total projected State costs of the contract are approximately $120 million in incremental costs over the term of the contract. The Fiscal Year 2020 state cost of $20 million is already accounted for in the Governor’s Fiscal Year 2020 proposed budget. A fiscal year breakdown of the projected costs follows:

<table>
<thead>
<tr>
<th></th>
<th>Incremental Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>COLA</td>
</tr>
<tr>
<td>FY 2020</td>
<td>$20.0</td>
</tr>
<tr>
<td>FY 2021</td>
<td>$33.5</td>
</tr>
<tr>
<td>FY 2022</td>
<td>$34.4</td>
</tr>
<tr>
<td>FY 2023</td>
<td>$21.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$108.9</td>
</tr>
</tbody>
</table>

**Question:** Please itemize, by branch, the specific components of change that make up the recommended FY 2020 appropriation for salary increases, COLAs, and step increments. Does the recommended amount, together with resources expected to carry forward from FY 2019, include the estimated impact of any
Discussion Points (Cont’d)

new contracts with collective bargaining units currently working under expired contracts? If so, please identify those bargaining units.

Answer: The FY 2020 recommended appropriation supports increment and ATB increases for all contracts, regardless of whether or not they will have expired on July 1, 2019. For these increases, $142.5 million has been budgeted for Executive Branch employees and $16.3 million has been budgeted for the Judicial Branch employees. Although CWA has been the only Executive Branch contract to settle thus far, the projected ATB for all union employees assumes a rate of 2% (conservatively based on the rate that had been awarded in the latest CWA settlement). Additionally, all carry forward balances are earmarked for current and projected retroactive contract payments (for contracts that have settled in FY 2019, as well as for contracts that have expired and are still in negotiations, respectively).

State Employee Compensation History

Table 8

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Regular Pay</th>
<th>Back-Pay</th>
<th>One-Time Bonuses</th>
<th>Legislative Pay</th>
<th>Overtime</th>
<th>Clothing</th>
<th>Retroactive</th>
<th>Total all Payments</th>
<th>Employee Count</th>
<th>Average compensati on</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4,564,483,599</td>
<td>14,979,861</td>
<td>10,455,368</td>
<td>1,639,747</td>
<td>239,229,953</td>
<td>25,684,873</td>
<td>4,530,920</td>
<td>4,861,304,120</td>
<td>88,614</td>
<td>54,859</td>
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<td>2009</td>
<td>4,720,333,992</td>
<td>20,136,352</td>
<td>11,431,919</td>
<td>2,917,009</td>
<td>228,876,224</td>
<td>14,035,874</td>
<td>9,959,380</td>
<td>5,007,190,122</td>
<td>84,628</td>
<td>56,237</td>
</tr>
<tr>
<td>2010</td>
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<td>17,130,348</td>
<td>9,501,282</td>
<td>2,565,001</td>
<td>237,774,938</td>
<td>49,983,823</td>
<td>52,351,637</td>
<td>4,981,801,867</td>
<td>81,910</td>
<td>56,576</td>
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<td>4,759,593,065</td>
<td>29,004,626</td>
<td>11,514,498</td>
<td>1,538,437</td>
<td>215,764,359</td>
<td>28,244,274</td>
<td>9,685,195</td>
<td>5,055,215,652</td>
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<td>62,839</td>
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<tr>
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<td>21,812,722</td>
<td>11,870,790</td>
<td>2,773,524</td>
<td>203,525,144</td>
<td>11,104,718</td>
<td>33,976,858</td>
<td>5,193,288,490</td>
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<tr>
<td>2013</td>
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<td>16,866,435</td>
<td>10,976,069</td>
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<td>24,832,735</td>
<td>2,067,712</td>
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<td>76,881</td>
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<td>2014</td>
<td>4,678,084,374</td>
<td>16,670,801</td>
<td>17,735,982</td>
<td>2,163,484</td>
<td>216,727,390</td>
<td>24,494,219</td>
<td>4,543,697</td>
<td>4,880,419,846</td>
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<td>65,273</td>
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<tr>
<td>2015</td>
<td>4,604,977,849</td>
<td>20,435,958</td>
<td>12,652,355</td>
<td>1,889,588</td>
<td>218,851,370</td>
<td>19,699,884</td>
<td>9,150,238</td>
<td>4,888,597,034</td>
<td>73,856</td>
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<tr>
<td>2016</td>
<td>4,493,856,961</td>
<td>17,16,131</td>
<td>6,159,662</td>
<td>2,609,928</td>
<td>234,742,906</td>
<td>104,458</td>
<td>25,256,571</td>
<td>4,770,850,137</td>
<td>72,746</td>
<td>65,500</td>
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</table>

Notes: The Employee count and the Average Compensation were computed based on employee status as defined by Payroll data. The Back-Pay payments and Overtime may include some part-time FTW data while the Employee Count represents full-time data. The data reflect all branches of State government.

Source: Department of Treasury

**Question:** Please update Table 8 above, State Employee Total Compensation History Fiscal Years 2007 - 2019 for the annual State payroll, measured by salaries and wages, showing overtime and one-time bonuses separate from regular compensation. What is the average annual compensation per full-time equivalent for each year of this time period?

Answer: Please see updated Table 8 below.
Discussion Points (Cont'd)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Regular Pay</th>
<th>Back Pay</th>
<th>Overtime</th>
<th>Total All Payments</th>
<th>Average Compensafion</th>
</tr>
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<tbody>
<tr>
<td>2007</td>
<td>$4,564,483,596</td>
<td>$1,429,861</td>
<td>$229,229,689</td>
<td>$6,215,984</td>
<td>$57,059</td>
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<tr>
<td>2008</td>
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<td>2011</td>
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<td>2012</td>
<td>$4,902,925,784</td>
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<td>$6,713,389</td>
<td>$65,401</td>
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<td>2013</td>
<td>$4,718,568,448</td>
<td>$16,956,435</td>
<td>$193,709,090</td>
<td>$6,866,250</td>
<td>$65,117</td>
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<tr>
<td>2014</td>
<td>$4,678,084,374</td>
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<td>$177,355,982</td>
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<td>2015</td>
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<td>2016</td>
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<td>$224,742,000</td>
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<td>2017</td>
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<td>$4,328,481,645</td>
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<td>$240,182,656</td>
<td>$6,150,600</td>
<td>$63,023</td>
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</table>

Unused Accumulated Sick Leave Benefits

37. The FY 2020 Governor's Budget recommends a FY 2019 adjusted appropriation and FY 2020 appropriation of $11 million. Expenditures in FY 2018 were $11.554 million.

- **Question:** What number of retirees and what average payment per retiree is projected in determining the amount recommended for unused sick leave payments for FY 2019 and FY 2020, respectively. Thus far, in FY 2019, how many retirees have been paid sick accumulated sick leave and at what average amount per retiree?

Answer: The recommendations for unused sick leave payments are based on payment trends and not based on the number of retirees assumed for each year because employees have up to one year to request payment for any unused accumulated sick time. Based on historical trends, the FY 2019 adjusted appropriation and FY 2020 recommendation amount of $11 million will support approximately 1,300 payments. In FY 2019, approximately 35% of actual payments will be paid at the maximum payout amount.

Annual State Workforce Profile

38. Each calendar year, until 2017, the Civil Service Commission published the Annual State Workforce Profile with selected local data (Workforce Profile). In one of the charts in the Workforce Profile, the Civil Service Commission reported the distribution of State government employees by salary broken into increments of $5,000 salary ranges, commencing with salaries of $20,000 and ending with salaries in excess of $100,000. This is shown in Table 9 below.
Interdepartmental Accounts

Discussion Points (Cont'd)

Table 9

STATE OF NEW JERSEY
Distribution of State Government Employees by Salary

JANUARY 7, 2016

Numbers and percentages reflect full-time employees; excludes Board and Commission members. (As of 01/01/2016, 66,732).
*0-25 = $20,000.00-$24,999.99 and so on.

Source: Civil Service Commission
Discussion Points (Cont'd)

- **Question:** Please provide a table, not a bar chart, reporting the distribution of State government employees broken into increments of $5,000 salary ranges commencing with salaries of $20,000 and ending with salaried in excess of $100,000. Please provide this data as of January, 2019.

Answer: Please see table below.

<table>
<thead>
<tr>
<th>SALARY BANDS</th>
<th>COUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-25</td>
<td>14</td>
</tr>
<tr>
<td>25-30</td>
<td>531</td>
</tr>
<tr>
<td>30-35</td>
<td>1,994</td>
</tr>
<tr>
<td>35-40</td>
<td>2,007</td>
</tr>
<tr>
<td>40-45</td>
<td>6,888</td>
</tr>
<tr>
<td>45-50</td>
<td>6,497</td>
</tr>
<tr>
<td>50-55</td>
<td>5,080</td>
</tr>
<tr>
<td>55-60</td>
<td>6,723</td>
</tr>
<tr>
<td>60-65</td>
<td>4,766</td>
</tr>
<tr>
<td>65-70</td>
<td>3,947</td>
</tr>
<tr>
<td>70-75</td>
<td>3,781</td>
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<tr>
<td>75-80</td>
<td>5,693</td>
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<tr>
<td>80-85</td>
<td>4,005</td>
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<tr>
<td>85-90</td>
<td>3,190</td>
</tr>
<tr>
<td>90-95</td>
<td>2,347</td>
</tr>
<tr>
<td>95-100</td>
<td>3,212</td>
</tr>
<tr>
<td>100+</td>
<td>9,468</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70,143</strong></td>
</tr>
</tbody>
</table>
Discussion Points (Cont'd)