LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 3310
STATE OF NEW JERSEY
216th LEGISLATURE

DATED: JULY 3, 2014

SUMMARY

Synopsis:	Credits increases in employee contributions required by P.L.2011, c.78 as additional contributions to TPAF, JRS, PERS, PFRS and SPRS unavailable to reduce normal contributions of State and local employers for actuarial valuations beginning July 1, 2015.
Type of Impact:	Expenditure increase to the State General Fund; local government funds.
Agencies Affected:	Division of Pensions and Benefits in the Department of the Treasury; local governments.

Office of Legislative Services Estimate

Fiscal Impact	FY 2015	FY 2016	FY 2017
State Cost		Indeterminate - See comments below	
Local Cost		Indeterminate - See comments below	

- This bill would require the State-administered retirement systems to change the actuarial methodology used to determine the public employer's normal cost contribution to the pension funds. The bill would require the State to deposit the increases in the employee contributions that were required under P.L.2011, c.78 into the pension funds as additional contributions instead of using all of the member contributions as an offset to the employer's normal cost contribution.

- The Office of Legislative Services (OLS) notes that the costs associated with this bill are indeterminate until an actuarial evaluation is performed.

- A change in the actuarial methodology used to determine the public employer's normal cost contribution that would require the State to deposit increases in the employee contributions into the pension funds as additional contributions instead of using all of the member contributions as an offset to the employer's normal cost contribution would affect the asset values, funding levels, and net pension obligations of the pension funds, and would increase employer contributions accordingly. As a result, employer contributions would be higher which would increase future funding levels and reduce (improve) the unfunded actuarial liability.

BILL DESCRIPTION

Assembly Bill No. 3310 of 2014 provides that beginning with the July 1, 2015 actuarial valuations of the five State-administered defined benefit retirement systems, the increased employee contributions resulting from the employee rate increases required by P.L.2011, c.78 will be credited as additional contributions to those retirement systems and will not be used to reduce the normal contributions of the State and the other public employers.

P.L.2011, c.78 increases the percentage of salary employee members contribute as follows: Teachers' Pension and Annuity Fund, from 5.5 percent to 6.5 percent, with an additional contribution of 1 percent to be phased-in in equal increments over a period of seven years; Public Employees' Retirement System, from 5.5 percent to 6.5 percent, with an additional contribution of 1 percent to be phased-in in equal increments over a period of seven years; Judicial Retirement System an additional 9 percent to be phased-in in equal increments over a period of seven years; Police and Firemen's Retirement System, from 8.5 percent to 10 percent; and State Police Retirement System, from 7.5 percent to 9 percent.

Under the bill, the pension funding yielded from these increases will not offset the State and local public employer shares of the normal cost of those systems but will be credited as additional contributions.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS notes that the costs associated with this bill are indeterminate until an actuarial evaluation is performed. For illustrative purposes, however, the OLS can provide details of the costs associated with and the effects of the pension funds experience of crediting increased employee contributions as additional contributions to the retirement systems after the enactment of P.L. 2011, c.78.

P.L.2011, c.78 made various changes to public employee pension benefits in New Jersey including increased member contributions, funding changes, benefits changes, and plan governance. Specifically, the law increased the member contribution rate for the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) from 5.5 percent of compensation to 6.5 percent of compensation effective October 2011. In addition, beginning July 1, 2012, the member contribution rate increases by 1/7 of 1 percent each year until a 7.5 percent member contribution rate is reached in July 2018.

After the enactment of P.L.2011, c.78, a decision was made by the Executive Branch to deposit the increases in the employee contributions into the pension funds as additional contributions instead of using all of the member contributions as an offset to the employers' normal cost contributions, which is the generally-accepted, actuarially standard practice. This change in methodology affected the asset values, funding levels, and net pension obligations, and increased employer contributions. As a result in FY 2013 and FY 2014, before a reevaluation, employer contributions were higher which increased future funding ratios and reduced (improved) the unfunded actuarial liability.

According to the Executive Branch, the methodology change increased State contributions by $34.9 million in FY 2013. Local employers in the aggregate contributed an additional $94.7 million (PERS $57.1 million and PFRS $37.6 million).

In FY 2014, the Executive Branch reversed its policy. The effect of reversing this policy reduced the State's contribution for the FY 2014 payment by $93 million and $153 million for the FY 2015 payment. The chart below shows the change in the projected State employer contribution amounts from FY 2013 through FY 2018 under the two methodologies. If the State had continued to deposit the increases in the employee contributions into the pension funds as additional contributions, the State would contribute $1.083 billion more into the pension systems by FY 2019.

Comparison of Projected State Contributions						
($ Millions)	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Post P.L.2011, c.78	$ 1,029	$ 1,675	$ 2,400	$ 3,175	$ 3,966	$ 4,743
After Reevaluation	$ 994 **(1)**	$ 1,582	$ 2,247	$ 2,967	$ 3,697	$ 4,413
Change in State Contribution	$ (35)	$ (93)	$ (153)	$ (208)	$ (269)	$ (330)

Source: Division of Pensions and Benefits, Department of the Treasury: 30 Year Projection of Employer Pension Costs, 30 Year Fund Projection under Current Funding Methodology (Reevaluation).

(1) The contribution in FY 2013 was $1.029 billion. If the reevaluation had occurred in FY 2013, the contribution would have been $994 million.

Section:	*State Government*
Analyst:	*Kimberly McCord Clemmensen* *Senior Fiscal Analyst*
Approved:	*David J. Rosen* *Legislative Budget and Finance Officer*

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