

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 3671
STATE OF NEW JERSEY
218th LEGISLATURE

DATED: MARCH 28, 2018

SUMMARY

Synopsis: Transfers management of PFRS to Board of Trustees of PFRS.

Type of Impact: Indeterminate Fiscal Impact to Administrative Costs Paid by Police and Firemen’s Retirement System.

Agencies Affected: Police and Firemen’s Retirement System; Division of Pensions and Benefits and Division of Investment, Department of the Treasury; Department of Community Affairs.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Administrative Costs - Police and Firemen’s Retirement System		Indeterminate	

- The Office of Legislative Services (OLS) notes that the authority provided to the Board of Trustees may have a fiscal impact on the administrative costs of operating the system. Any increase or decrease in the administrative costs will depend on the board’s decisions to establish its own staff and vendors, instead of continuing to use the services of the Division of Pensions and Benefits and Division of Investment.
- After six years, the bill requires the board of trustees to conduct a review of the performance and funding levels of the retirement system and, based on a majority vote of the board, allows the board to petition the Legislature to consider legislation that reverts control of the system to the Department of the Treasury, or other agency as the State deems appropriate, and emphasizes that nothing in the bill relieves the State or local government employers of obligations to the PFRS or its members.

BILL DESCRIPTION

This bill transfers management of the Police and Firemen's Retirement System (PFRS) from the Division of Pensions and Benefits in the Department of the Treasury to the Board of Trustees of the PFRS.

The bill vests with the board of trustees all the functions, powers, and duties relating to the investment and reinvestment of money in any fund or account under the control of the board. The Division of Investment in the Department of the Treasury currently performs these functions. Under the bill, the board of trustees may make and execute agreements with public and private enterprises for the management of the investments of the retirement system. The bill requires the board to hire an executive director, actuary, chief investment officer, and ombudsman.

This bill requires the executive director and chief investment officer employed by the board to have, at minimum, a bachelor's degree from an accredited institution of higher education, and at least five years management experience in accounting, finance, public administration, government pension and retirement planning, investment banking, financial consulting, money management, or a similar field, and to meet all other requirements for employment set forth in a standard adopted by the board. A member, retiree, or other beneficiary of the retirement system may not hold the position of executive director or chief investment officer.

Under the bill, the board of trustees has the authority to establish a process for the review, approval, and appeal of applications for retirement. The bill provides the board of trustees with authority to modify the system's member contribution rate; cap on creditable compensation; formula for calculation of final compensation; and standards for special retirement and disability retirement. The bill allows the board to reinstate cost of living adjustments for retirees. Under the bill, the board may alter any benefit set forth in statute for the PFRS. There are to be at least eight votes of the authorized membership of the board to approve any enhancement or reduction of a member benefit, including the activation of the now-suspended cost of living adjustment for retirees, or to approve any increase or decrease in the employer contribution that is more than what is recommended by the actuary for the system for the purpose of the annual funding requirements of the system. With regard to changing the employee contribution rate, the bill requires an actuarial certification that such change will not result in increased employer contributions

Moreover, the bill requires local employers to pay their required contributions to the PFRS on a quarterly basis. If a local employer does not make a required contribution within 30 days of the due date, the Division of Local Government Services will withhold any State aid payment due to that employer in an amount equal to the amount of the delinquent contribution. If the employer is eligible for transitional aid, the Division of Local Government Services is to consult with the board to develop a payment plan to ensure that the required payment and interest owed is paid in a timely manner. The director will release the withheld State aid payment to the employer upon certification by the board of the receipt of the delinquent contribution.

This bill requires the board of trustees, at the end of six years following the enactment date of this bill, to conduct a review of the performance and funding levels of the retirement system, as compared to available market data, including, but not limited to, the performance of the State Investment Council and Division of Investment with regard to the investment of other State-administered retirement systems or funds and the Bloomberg Barclays Indices, and may, based on a majority vote of the authorized membership of the board, petition the Legislature to consider legislation that reverts control of the system to the Department of the Treasury, or other agency as the State deems appropriate.

The bill does not diminish the non-forfeitable right PFRS members have to receive the benefits provided under State law or affirmed by the State's courts. Nothing in the bill relieves the State or local government employers of any past, present, or future obligations to the PFRS or its members.

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS notes that the authority provided to the Board of Trustees under the bill may have a fiscal impact on the administrative costs of operating the PFRS. Administrative costs will depend on the board's future decisions. Currently, the Division of Pensions and Benefits in the Department of the Treasury provides the administrative services for State-administered retirement systems, including PFRS. The bill requires the board to hire an executive director, actuary, independent actuary, chief investment officer, and ombudsman. Any increase or decrease in administrative costs will depend on the board's decisions to employ additional staff instead of continuing to use the services of the Division of Pensions and Benefits in the Department of the Treasury.

Additionally, after six years, the bill requires the board of trustees to conduct a review of the performance and funding levels of the retirement system, and based on a majority vote of the board, allows the board to petition the Legislature to consider legislation that reverts control of the system to the Department of the Treasury, or other agency as the State deems appropriate.

The bill vests with the board of trustees all the functions, powers, and duties relating to the investment and reinvestment of money in any fund or account under the control of the board. Currently, the Division of Investment in the Department of the Treasury performs these duties. As the PFRS board chooses to make and execute agreements with public and private companies for the management of the investment of the PFRS, the administrative costs and investment expenses of the PFRS will be impacted. Whether this impact will result in increased or decreased investment management costs depends on future decisions that cannot be foreseen by the OLS.

As of June 30, 2016 (most recent information available), total administrative expenses allocated to the PFRS were \$4,779,598, and investment management expenses and fees allocated to the PFRS were \$1,837,898. Related consultant costs for an actuary, actuarial services, and other consulting costs for the PFRS were \$1,188,034 in FY 2016.

The charts below show the allocation of expenditures among the State-administered retirement systems as of June 30, 2016. In FY 2016, the PFRS accounted for approximately 11 percent of total pension fund administrative expenses. Administrative costs for actuarial services (40 percent), medical reviews and exams (25 percent), elections (55 percent), and travel (27 percent) were higher, as a percentage of total PFRS administrative costs, than other PFRS administrative costs.

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STATE OF NEW JERSEY										
DIVISION OF PENSIONS AND BENEFITS										
Schedule of Administrative Expenses										
Year Ended June 30, 2016										
\$										
	JRS	POPF	SPRS	CPFPF	TPAF	PFRS	PERS	NJSEDCP	Total	PFRS as a % of Total
Personal Services:										
Salaries and wages	\$ 86,267	\$ 1,719	\$ 123,043	\$ 1,738	\$ 5,020,548	\$ 1,363,553	\$ 8,398,909	\$ 100,389	\$ 15,096,166	9%
Employee Benefits	\$ 39,352	\$ 805	\$ 57,581	\$ 814	\$ 2,349,494	\$ 698,583	\$ 3,930,485	\$ 61,394	\$ 7,138,508	10%
Total personal services	\$ 125,619	\$ 2,524	\$ 180,624	\$ 2,552	\$ 7,370,042	\$ 2,062,136	\$ 12,329,394	\$ 161,783	\$ 22,234,674	9%
Professional Services:										
Actuarial services	\$ 8,268	\$ 695	\$ 49,734	\$ 703	\$ 207,299	\$ 690,600	\$ 750,000	\$ -	\$ 1,707,299	40%
Data processing	\$ 15,157	\$ 487	\$ 11,862	\$ 493	\$ 1,422,489	\$ 384,090	\$ 2,379,692	\$ 13,261	\$ 4,227,531	9%
Information systems	\$ 8,465	\$ 718	\$ 17,529	\$ 1,998	\$ 2,180,389	\$ 257,065	\$ 3,151,635	\$ -	\$ 5,617,799	5%
Other professional	\$ 3,035	\$ 255	\$ 18,481	\$ 258	\$ 745,734	\$ 256,572	\$ 1,248,688	\$ -	\$ 2,273,023	11%
Medical reviews (exams/hearings)	\$ -	\$ -	\$ 21,700	\$ -	\$ 358,734	\$ 472,545	\$ 1,023,255	\$ -	\$ 1,876,234	25%
Elections	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,889	\$ 20,000	\$ -	\$ 44,889	55%
Internal audit and legal	\$ 2,101	\$ 177	\$ 12,639	\$ 179	\$ 515,703	\$ 175,500	\$ 862,723	\$ 36	\$ 1,569,058	11%
Total professional services	\$ 37,026	\$ 2,332	\$ 131,945	\$ 3,631	\$ 5,430,348	\$ 2,261,261	\$ 9,435,993	\$ 13,297	\$ 17,315,833	13%
Communications:										
Travel	\$ 7	\$ 1	\$ 41	\$ 1	\$ 4,271	\$ 4,134	\$ 7,115	\$ -	\$ 15,570	27%
Telephone	\$ 353	\$ 30	\$ 2,125	\$ 30	\$ 86,715	\$ 29,510	\$ 145,065	\$ 2,800	\$ 266,628	11%
Postage	\$ 1,600	\$ 134	\$ 9,622	\$ 136	\$ 392,608	\$ 133,609	\$ 656,796	\$ 1,000	\$ 1,195,505	11%
Motor pool	\$ 12	\$ 1	\$ 73	\$ 1	\$ 2,994	\$ 1,019	\$ 5,009	\$ -	\$ 9,109	11%
Printing and Office	\$ 450	\$ 38	\$ 2,705	\$ 38	\$ 110,369	\$ 37,560	\$ 184,637	\$ -	\$ 335,797	11%
Total communications	\$ 2,422	\$ 204	\$ 14,566	\$ 206	\$ 596,957	\$ 205,832	\$ 998,622	\$ 3,800	\$ 1,822,609	11%
Miscellaneous:										
Office Space	\$ 2,868	\$ 241	\$ 17,253	\$ 244	\$ 703,978	\$ 239,572	\$ 1,177,691	\$ -	\$ 2,141,847	11%
Maintenance	\$ 16	\$ 1	\$ 94	\$ 1	\$ 3,849	\$ 1,310	\$ 6,439	\$ -	\$ 11,710	11%
Equipment	\$ 97	\$ 8	\$ 586	\$ 8	\$ 23,894	\$ 8,131	\$ 39,973	\$ -	\$ 72,697	11%
Other services and charges	\$ 16	\$ 2	\$ 98	\$ 1	\$ 3,985	\$ 1,356	\$ 6,667	\$ 12,000	\$ 24,125	6%
Total miscellaneous	\$ 2,997	\$ 252	\$ 18,031	\$ 254	\$ 735,706	\$ 250,369	\$ 1,230,770	\$ 12,000	\$ 2,250,379	11%
Total administrative expenses	\$ 168,064	\$ 5,312	\$ 345,166	\$ 6,643	\$ 14,133,053	\$ 4,779,598	\$ 23,994,779	\$ 190,880	\$ 43,623,495	11%
Average										14%
Source: State of New Jersey Division of Pensions and Benefits, Financial Statements and Supplementary Schedules June 30, 2016.										
STATE OF NEW JERSEY										
DIVISION OF PENSIONS AND BENEFITS										
Schedule of Expenses for Consultants										
Year Ended June 30, 2016										
\$										
	JRS	POPF	SPRS	CPFPF	TPAF	PFRS	PERS	NJSEDCP	Total	PFRS as a % of Total
Actuarial:										
Buck consultants	\$ 8,268	\$ 695	\$ 49,734	\$ 703	\$ -	\$ 690,600	\$ 750,000	\$ -	\$ 1,500,000	46%
Milliman	\$ -	\$ -	\$ -	\$ -	\$ 207,299	\$ -	\$ -	\$ -	\$ 207,299	0%
Medical Reviews	\$ -	\$ -	\$ 21,700	\$ -	\$ 358,734	\$ 472,545	\$ 1,023,255	\$ -	\$ 1,876,234	25%
Board of elections:										
Global Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,889	\$ 20,000	\$ -	\$ 44,889	55%
Total Expenses for Consultants	\$ 8,268	\$ 695	\$ 71,434	\$ 703	\$ 566,033	\$ 1,188,034	\$ 1,793,255	\$ -	\$ 3,628,422	33%
Source: State of New Jersey Division of Pensions and Benefits, Financial Statements and Supplementary Schedules June 30, 2016.										
STATE OF NEW JERSEY										
DIVISION OF PENSIONS AND BENEFITS										
Investment Income and Expenses										
Year Ended June 30, 2016										
\$										
	JRS	POPF	SPRS	CPFPF	TPAF	PFRS	PERS	NJSEDCP	Total	PFRS as a % of Total
Investment income	\$ 21,872	\$ 2,032	\$ 132,734	\$ 2,549	\$ 5,434,567	\$ 1,837,898	\$ 9,226,688	\$ 247,860	\$ 16,906,200	11%
Source: State of New Jersey Division of Pensions and Benefits, Financial Statements and Supplementary Schedules June 30, 2016.										

In addition, the bill requires local governments to make their annual payment to the PFRS on a quarterly basis, which may reduce short term borrowing by some local governments but increase short term borrowing by others. The bill permits a local government to reduce the pension payment by any additional borrowing cost. Such a payment method is already required by law for the State as an employer. If a local government does not make a pension payment on time, the Department of Community Affairs is authorized to withhold any State aid available for payment to that government until the pension payment is made. Spreading local employer

contributions over four quarters, rather than requiring a single annual payment, will reduce the number of days those contributions are available to be invested, which may reduce investment returns.

Section: State Government

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Legislative Budget and Finance Officer*

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