

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY COMMITTEE SUBSTITUTE FOR

ASSEMBLY, No. 4313

**STATE OF NEW JERSEY
219th LEGISLATURE**

DATED: JUNE 8, 2021

SUMMARY

Synopsis: Requires Administrative Law Judges to be enrolled in PERS.

Type of Impact: Annual expenditure increase to the State General Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	
Annual State Cost Increase	Approximately \$2 million in first year and growing with payroll thereafter

- The Office of Legislative Services (OLS) estimates that this bill will lead to annual State cost increases resulting from the transfer of Administrative Law Judges from the Defined Contribution Retirement Program to the Public Employees' Retirement System. The first-year cost could approximate \$2 million. In subsequent fiscal years, the annual State cost will grow as a function of increases in judges' salaries and other economic factors.
- The bill may also make Administrative Law Judges eligible for healthcare benefits at retirement that are not available in the Defined Contribution Retirement Program.

BILL DESCRIPTION

This bill transfers Administrative Law Judges from the Defined Contribution Retirement Program to the Public Employees' Retirement System.

Under current law, an Administrative Law Judge is required to enroll in the Defined Contribution Retirement Program for elected and appointed officials. Under that program, members contribute 5.5 percent of base salary to a tax-deferred investment account established with Prudential, which jointly administers the program with the Division of Pensions and Benefits. Member contributions are matched by a three-percent employer contribution. A vested participant has the right to a benefit at retirement based on both the employee and employer contributions to the account. Service time from enrollment in the Defined Contribution Retirement Program cannot be used to qualify for employer-paid health insurance coverage under the State Health Benefits Program at retirement.

Members of the Defined Contribution Retirement Program who transfer into the Public Employees' Retirement System will be enrolled in the membership tier that corresponds to the date of enrollment, or Tier 5 in this case. Under current law, service retirement is available to Tier 5 members upon reaching age 65. The retirement allowance of a Tier 5 member is calculated by dividing the number of years of service credit by 60 and then multiplying that quotient by the participant's final average annual salary from the last five years of service. Tier 5 members who retire before age 65 with at least 30 years of service, will have their retirement allowance reduced by 1/4 of one percent for each month (three percent per year) that the member is under age 65.

An Administrative Law Judge transferred into the Public Employees' Retirement System may have the Defined Contribution Retirement Program contributions transferred into the Public Employees' Retirement System in accordance with Internal Revenue Service regulations.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that this bill will lead to annual State cost increases for employee retirement benefits. Additional employer contributions will result from the unfunded liability created by the transfer of Administrative Law Judges to the Public Employees' Retirement System.

The OLS estimates that first-year costs of this bill could approximate \$2 million for the unfunded liability created by the transfer. This estimate could be higher or lower depending on the specific rollover provisions that are or are not applicable to the Defined Contribution Retirement Program, benefit factors that may be applied to these judges, and changes in the underlying assumptions in the analysis. In subsequent fiscal years, the annual State cost will grow as a function of increases in judges' salaries and other economic factors.

The State may incur an additional annual cost upon the retirement of Administrative Law Judges. That is because service time from enrollment in the Defined Contribution Retirement Program cannot be used to qualify for employer-paid health care coverage under the State Health Benefits Program at retirement. Therefore, the transfer of the service may make Administrative Law Judges eligible for this benefit at retirement. For example, the judges may qualify for State health care benefits when retired with 25 or more years of service credit, the cost of which is borne primarily by the employer. The average annual cost per member to the State for State Health Benefit Program coverage for a retiree, not taking into account future inflation, is \$31,453 for coverage under a Horizon plan for an early retiree and spouse and \$8,644 for coverage under an Aetna Medicare plan for a retiree and spouse.

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