

Office of Legislative Services Background Report

Public Employees' Retirement System Benefits: Quick Notes

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Introduction

Of the six major State-administered retirement systems, the Public Employees' Retirement System (PERS) has the largest and most diverse membership. A public employee in New Jersey whose compensation is \$1,500 or more and who is not a teacher, college professor, police officer, firefighter, State trooper or judge is a member of PERS. The Governor, a State legislator, a mayor, a county clerk and a school crossing guard, for example, are PERS members. PERS is a defined benefit pension plan which provides not only a retirement benefit determined by a stated formula for the life of the member, but also provides other benefits.

PERS Membership

An active PERS member is a person who is currently employed in a PERS-covered position with a public employer and making the employee contribution of 5% of compensation to the system, or who has made contributions to PERS within two years and has not retired or withdrawn those employee contributions. A PERS member accrues PERS service credit for the time during which the member works. No more than one year is credited for all PERS-covered employment in a calendar year. If the member works in two PERS-covered positions for one year, for example, that member accrues one year of service credit and the compensation for that period is the sum of the compensations from both positions. A PERS member becomes "vested" upon accruing 10 years of service credit. Once vested, a PERS member is eligible for a pension funded by both the employee's contributions and any employers' contributions. If a vested PERS member ceases to be an active member for more than two years, without being eligible for a pension, the member may either withdraw the employee contributions or receive a deferred retirement allowance upon achieving age 60, the normal retirement age. A PERS member with fewer than 10 years of service who leaves PERS-covered employment for more than two years, ceases to be a PERS member and receives payment of accumulated employee contributions.

Benefits of Active PERS Members

An active PERS member has the option of purchasing PERS service credit for certain public service for which the member may not currently have credit in the system. The types of service eligible for full or partial credit purchase include (1) temporary, provisional, certain intermittent or substitute employment, if the employment was continuous and immediately preceded a permanent or regular appointment; (2) official leaves of absence without pay; (3) service credited under a previous membership in PERS or any of the other State-administered defined benefit plans; (4) up to 10 years of public employment with any state, local government, school district, or public agency outside New Jersey but within the United States, if the service would have been eligible for membership in one of the State-administered retirement systems and if the member is not receiving, or eligible to receive, retirement benefits from another system on the basis of that service; (5) up to 10 years for civilian service with the U. S.

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Government, if the member is not receiving, or eligible to receive, retirement benefits from another system on the basis of that service; (6) up to 10 years of active military service rendered prior to PERS enrollment, if the member is not receiving, or eligible to receive, retirement benefits from another system on the basis of that service; (7) military service rendered after October 13, 1994, before and after which the member was enrolled in PERS (credit to be used to determine eligibility for benefits, not the calculation of the amount of benefits unless the employee has made employee contributions for the period); (8) any regular public employment in New Jersey for which the member did not receive credit and which would have been previously compulsory membership; and (9) employment for which credit was established in a local retirement system in New Jersey, if the credit was ineligible for transfer to PERS upon withdrawal from the local system and if the member is not receiving, or eligible to receive, retirement benefits from the other system on the basis of that service. A credit purchase may be paid in a lump sum, through payroll deductions, or a combination thereof.

Any PERS member who has at least three years of service credit may borrow from the retirement system. The total outstanding loan balance may not exceed the lesser of 50% of the amount of the member's accumulated contributions or \$50,000. The loan amount with 4% interest can be repaid by payroll deductions not in excess of 25% of the member's compensation. No more than two loans may be granted to any member in any calendar year. If a member retires without repaying the full amount borrowed, the same monthly amount will be deducted from the retirement benefit until the loan balance is repaid. If a PERS retiree dies before the outstanding balance of the loan and interest is repaid, the remaining balance will be repaid from the proceeds of any other benefits payable, either monthly payments due to any beneficiaries or lump sum payments payable for life insurance.

A PERS member, under 60 years of age, who has 10 or more years of PERS credit for New Jersey service may be retired for ordinary disability and receive a retirement allowance of 1.64% of final compensation multiplied by the number of years of creditable service but no less than 43.6% of final compensation. A member, under age 65, who is permanently and totally disabled as a direct result of a traumatic event occurring during and as a result of the performance of regular or assigned duties may be retired on an accidental disability allowance. The accidental disability retirement allowance is 72.7% of actual annual compensation at the time of the accident. If a disability retiree becomes employed again in a PERS-covered position, the disability retirement allowance and eligibility for the concomitant death benefit will cease and the person will be treated as an active member.

When an active PERS member dies as a result of an accident met in the actual performance of duty at some definite time and place, an accidental death benefit will be paid to the member's surviving spouse, or domestic partner, if applicable, in the form of a pension of 50% of the annual compensation at that time, to continue during widowhood. If there is no surviving spouse, or if the surviving spouse dies or remarries, 20% of compensation will be paid to one surviving child, 35% to two surviving children in equal shares, and 50% to three or more children in equal shares. If there is no surviving spouse, partner or child, 25%

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of compensation will be paid to one surviving parent or 40% to two surviving parents in equal shares. Domestic partners of PERS members who are State employees, or employees of local public employers who have adopted the appropriate resolution, are eligible for this survivor benefit. In addition, a death benefit of one and one-half times compensation will be paid in one sum to the member's beneficiary.

Upon the death of an active PERS member, on account of which no accidental death benefit is payable, the member's designated beneficiary will receive the member's accumulated employee contributions plus a death benefit of one and one-half times compensation, in one sum.

An active PERS member may purchase additional death benefit coverage (life insurance) through payroll deductions for the amount of 150% of the member's current annual compensation payable to a designated beneficiary. The contributory insurance coverage is mandatory for the first year of employment, optional thereafter. The cost is one-half of one percent (0.005%) of base salary.

PERS Retiree Benefits

A PERS member may retire once the member achieves a certain age and/or a certain number of years of creditable service. Sometimes, a PERS member is eligible for more than one type of retirement benefit; the Division of Pensions and Benefits in the Department of the Treasury reviews all calculation possibilities at the time of retirement to ensure that the member receives the highest benefit permitted by the statutes. With the exceptions noted below, the PERS pension benefit calculations are based on "final compensation," which the statutes define as the average annual compensation for which contributions are made for the three years of creditable service in New Jersey immediately preceding the member's retirement or death, or the average annual compensation for New Jersey service for which contributions are made during any three fiscal years of membership providing the largest possible benefit to the member or the member's beneficiary.

At the time of retirement, a PERS member has the option of converting the contributory group life insurance coverage to an individual policy with the Prudential Insurance Company.

A PERS member with 25 or more years of creditable service before reaching the normal retirement age of 60 may elect "early retirement" and receive 1/55 of final compensation for each year of service credited, reduced, however, by 1/4 of 1% for each month that the member lacks of being age 55. Upon the death of such a retiree, three-sixteenths of the compensation paid in the last year of service will be paid to the designated beneficiary. A PERS member with any number of years of service who has attained 60 years of age may retire on a service pension and receive 1/55 of final compensation for each year of service credited. Upon the death of the retired member, three-sixteenths of the compensation paid in the last year of service will be paid to the designated beneficiary.

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A PERS member who is an eligible veteran member, under the definitions of the PERS statutes, and who is (1) age 60 with 20 or more years of aggregate service credit or (2) age 55 with 25 or more years of aggregate service credit, will receive 54.5% of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member. A PERS veteran member who has attained age 55 and who has at least 35 years of aggregate service credit will receive 1/55 of the compensation during the last year of employment for each year of creditable service. Upon the death of a PERS veteran retiree, three-sixteenths of the compensation received in the last year of service will be paid to the designated beneficiary.

Workers compensation judges are members of the PERS Workers' Compensation Judges Part and are eligible for enhanced PERS retirement benefits that include 75% of compensation at the time of retirement, if at retirement the judge is age 60 with 20 or more years of service, age 65 with 15 or more years of service, or age 70 with 10 or more years of service as a workers' compensation judge. Upon the death of a retired member of the part, the member's beneficiary receives a death benefit of 25% of final salary in one sum. The part also provides a pension benefit of 25% of compensation to the surviving spouse of an active workers' compensation judge, plus 10% for one child or 15% for two or more children, as well as a death benefit of one and one-half times final salary in one sum for the designated beneficiary.

The PERS Prosecutors Part provides enhanced pension benefits to PERS members who have service as a county prosecutor, first assistant prosecutor or assistant prosecutor or have service within the Division of Criminal Justice in the Department of Law and Public Safety, as director, assistant director, deputy director, assistant attorney general or deputy attorney general. Members of this part are eligible for a pension of 65% of the last year's compensation for 25 years of prosecutor service plus 1% for each year of service beyond 25 but not more than 30 (with maximum of 70%).

Members of the Legislature qualify for a special legislative retirement benefit at age 60 of 3% of final legislative compensation for each year of service as a legislator (with a maximum 66 2/3%), or after eight or more years of legislative service, for a deferred pension at age 60 (calculated in the same manner). Legislators are also eligible for a regular PERS retirement benefit based upon legislative service aggregated with other PERS-covered public employment. Alternatively, a legislator with both legislative service and regular PERS-covered employment may choose to receive separate pensions, the special legislative one and the regular PERS service one. A legislator, or any other elected official, may retire from PERS and remain in the elected position so long as the PERS pension is not based solely upon service in the elected position.

A PERS member who is a State employee holding one of a limited category of law enforcement officer (LEO) titles but is ineligible for enrollment in the Police and Firemen's Retirement System is eligible to participate in the PERS LEO category (with special retirement benefits but compulsory retirement at age 65) or as a regular member of PERS.

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The PERS member who left PERS-covered employment after vesting but before retirement, who is eligible for a deferred retirement allowance, will receive, at age 60, a pension equal to 1/55 of final compensation for each year of service credited and three-sixteenths of the compensation received in the last year of service will be paid to the beneficiary, or the member's estate, upon the retiree's death. If such member dies before age 60, the member's accumulated employee contributions plus regular interest will be paid to the designated beneficiary.

At the time of retirement, a PERS member has the choice of receiving (1) a pension that is the full amount of the retirement allowance payable throughout life or (2) the actuarial equivalent of the member's retirement allowance in the form of a lesser pension plus a payment to a beneficiary in one of the following ways. Option 1 provides that if the member dies before receiving a pension equal to the actuarial equivalent of the member's benefit, the balance will be paid, in a lump sum or as a life annuity, to a designated beneficiary or beneficiaries, which can be other than a natural person. Option 2 provides that upon the member's death, the member's pension will continue to be paid to a designated beneficiary, the designation of whom may not be changed. Option 3 provides that upon the member's death, one-half of the member's pension will continue to be paid to a designated beneficiary, the designation of whom may not be changed. Option 4 provides that the PERS member will receive a pension and some other benefit or benefits will be paid to a designated beneficiary or beneficiaries, if the other benefit or benefits, together with the member's lesser pension are equivalent to the actuarial value of the member's benefit. If the member's beneficiary dies before the member, the member's pension continues to be the lesser amount. Option 5 provides that the PERS member may choose some other benefit, which is equivalent to the full amount, three-quarters, one-half or one-quarter of the member's pension, that will be paid to a designated beneficiary, but if that beneficiary dies before the member, the member's pension will increase to an unreduced pension (this is commonly referred to as the pop-up option).

Unless a PERS member is one who elects (1) a deferred retirement allowance or (2) an early retirement allowance, if the member dies within 30 days after the date of retirement or the date of board approval, whichever is later, the member's retirement allowance does not become effective and the member is considered an active member at the time of death, that is, there is no benefit beyond the return of employee contributions and the lump sum death benefit. However, if the member dies after the date the application for retirement was filed, the retirement will become effective if (1) the deceased member had chosen an optional benefit for a named beneficiary and (2) the surviving beneficiary requests in writing that the board make such a selection, which will be irrevocable. The PERS board of trustees may select Option 3 on behalf of the beneficiary of a member who applied for and was eligible for retirement but who died prior to the effective date of the retirement benefit, if the member had chosen an optional benefit for a named beneficiary.

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After Retirement

With certain exceptions, if a PERS retiree becomes employed again in a PERS-covered position, receipt of the PERS pension ceases. The retiree is re-enrolled in PERS and is once again eligible for active PERS member benefits. Upon subsequent retirement, the former pension will be reinstated together with any optional selection, based on the former membership and there will be an additional pension based on the later service. This cancellation and re-enrollment requirement does not apply to a PERS retiree who becomes employed again by: (1) an employer or employers in a position or positions for which the aggregate compensation does not exceed \$15,000 per year; (2) an employer that is a public institution of higher education in a teaching staff position, if the compensation exceeds \$10,000 per year; (3) the State Department of Education in a position of critical need as determined by the State Commissioner of Education; or (4) a board of education in a position of critical need as determined by the superintendent of the district on a contractual basis for a term of not more than one year (a reemployed retiree may renew a contract for one additional year, provided that the total period of employment with any individual board of education does not exceed a two-year period).

More detailed PERS information is available on the Division of Pensions and Benefits web site (<http://www.state.nj.us/treasury/pensions>).

For further information, contact:

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