



# NEW JERSEY TRANSIT

Transition From  
Defined Benefit Pension Plans  
To  
Defined Contribution Pension Plans

# The Problem/Issue

- Increased Plan Contributions – Required pension contributions have increased from \$27.0 million to \$60.9 million from FY 2001 to FY 2006. This 126% increase is attributable to:
  - Improved pension benefits for active employees (formula increase from 1.75% to 2.00%)
  - Investment results less than actuarial assumptions
  - Updated and revised mortality tables
  - Increased retiree benefits – Union plans
- Under funded pension plans – Despite increased plan contributions, accrued benefits continue to exceed pension assets

# Non-Agreement Plan Solution

- Closed existing plan to new employees effective July 1, 2006
- Provided a defined contribution 401(a) pension plan for new employees with a company contribution of 6% of salary
- Allowing current non-agreement employees to continue in the current defined benefit plan or transfer to the new defined contribution plan

# Benefits of Defined Contribution Plan

- 3-year vesting (DC Plan) compared to 10-year vesting (DB Plan)
- Portable benefits for a mobile workforce
- Employee controls account and selects investments
- At death, amount paid to beneficiary

# Defined Benefit Plans at June 30, 2006

| <u>Plan</u> | <u>Participants*</u> | <u>Assets (millions)</u> |
|-------------|----------------------|--------------------------|
| Bus Union   | 7,600                | \$614.3                  |
| NJ TERP     | <u>2,600</u>         | <u>249.0</u>             |
| Total       | <u>10,200</u>        | <u>\$863.3</u>           |

\* Active, vested former participants and pensioners

# Pension Benefit Obligation

(in millions of \$)

|                                      | <u>2005</u>     |
|--------------------------------------|-----------------|
| Accrued Benefit Obligation           | \$884.6         |
| Less Pension Assets at Market Value  | <u>\$793.3</u>  |
| Funded (Unfunded) Benefit Obligation | <u>(\$91.3)</u> |