ICYMI: “The Commission’s Reform Plan Represents The Best Hope For Jersey”

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In Case You Missed It

"The Commission's Reform Plan Represents The Best Hope For Jersey"

- Steven Malanga, Manhattan Institute

Defusing New Jersey’s Pension Time Bomb
Steven Malanga, Manhattan Institute
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New Jersey is beset by one of the worst government pension problems in the nation, thanks to decades of bad management, deceptive accounting and the continual awarding of higher benefits to workers without adequate funding by Jersey governors and legislatures.

For years, some observers have argued that the New Jersey pension system is so deeply in debt, to the tune of at least $60 billion, that it is beyond saving at a reasonable cost. Now, an expert commission consisting of Democrats, Republicans and independents who were asked by Gov. Christie to examine the issue has agreed.

In a recent report, the New Jersey Pension and Health Benefit Study Commission warned that, “There are no plausible solutions for closing the pension funding gap” in the state without serious new reforms. Trying simply to pay its way out of the current funding mess would require the state to increase its income tax by 29 percent or raise the sales tax to 10 percent, in a state that is already one of the nation’s highest taxed.

Instead, the commission has proposed sweeping changes to ensure workers that a pension system that otherwise could be depleted by the middle of the next decade would have funds for their retirement. The plan would also cut expenditures so that Jersey government, which faces the prospect of devoting virtually all growth in tax revenues to rising benefit costs, could channel some of that money into other budget areas.

Although controversial, the commission’s reform plan represents the best hope for Jersey to dig its way out of a problem that has dogged the state and hampered efforts to turn around its economy.

At the heart of the commission’s plan is a proposal to freeze the current pension system and transfer management of the assets to unions. Workers would retain all of the benefits they have earned, but the system would stop piling up new obligations. The state would commit to paying off the system’s debt over decades, so that the plan would have money for future retirees.

At the same time the state would create a new, less expensive retirement system, known as a cash-balance plan. Government would make regular contributions into the plan based on a percentage of a worker’s salary, and that money would grow over the years thanks to modest projected investment returns. …

The bottom line of the plans would be $2.9 billion in annual budget savings. Without reform, pensions and health care alone would cost $8 billion next year, 23 percent of the state budget. Legislators would also ask voters for a constitutional amendment to require Trenton to contribute annually toward paying pension obligations. No longer would legislators be able to woo political support from unions by promising them new benefits without paying for them immediately.

A few union leaders have agreed to negotiate on the broad outlines of the recommendation, though there are numerous details to be worked out. Those willing to come to the table recognize that there is no easy way to tame a debt monster that threatens to consume ever more tax dollars.

But other leaders and the legislators who rely on their support are balking, telling the state to simply pay up without explaining where the money would come from. There's only one answer to that question: It would have to come from taxpayers. But they can't afford that huge bill.

Full article HERE.

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Press Contact:
Kevin Roberts
Brian Murray
609-777-2600