Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON PUBLIC EMPLOYEE BENEFITS REFORM

"The Committee will receive a presentation by Frederick J. Beaver, Director of the New Jersey Division of Pensions and Benefits"

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: August 24, 2006
10:00 a.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Nicholas P. Scutari, Co-Chair
Assemblywoman Nellie Pou, Co-Chair
Senator Ronald L. Rice
Senator William L. Gormley
Assemblyman Thomas P. Giblin
Assemblyman Kevin J. O'Toole

ALSO PRESENT:

Pamela H. Espenshade
Office of Legislative Services
Committee Aide

Christian Martin
George LeBlanc
Senate Majority
Aaron Binder
Karina Fuentes
Assembly Majority
Committee Aides

Laurine Purola
Olga Betz
Senate Republican
John Kingston
Jerry Traino
Assembly Republican
Committee Aides

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TABLE OF CONTENTS

rs: 1-57
lb: 58-74

SENATOR NICHOLAS P. SCUTARI (Co-Chair): Okay. Welcome back to our Committee hearings.

Can we take a roll call, please?

MS. ESPENSHADE (Committee Aide): Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Here.

MS. ESPENSHADE: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Here.

MS. ESPENSHADE: Senator Gormley.

SENATOR GORMLEY: Here.

MS. ESPENSHADE: Senator Rice. (no response)

Co-Chair Assemblywoman Pou.

ASSEMBLYWOMAN NELLIE POU (Co-Chair): Here.

MS. ESPENSHADE: And Co-Chair Senator Scutari.

SENATOR SCUTARI: Here.

Thank you.

Some of the members of this Committee had asked us to start going directly into health-care benefit reform. And we're going to consider trying to move that up on our agenda for next week. Unfortunately, to address that, our staff is just not up to speed with respect to an in-depth, detailed analysis of the costs, and benefits, and potential reforms with respect to health-care considerations for the State workforce, at this point in time.

But I do appreciate those remarks. Obviously, there may be a more immediate level of savings moving into that area. But we've set out an agenda. We're going to try and keep to that for this point, at least for the purposes of today's discussion. And we're going to move back, and continue our discussion with respect to pension reforms and the considerations that Director Beaver may have.

Chair, do you have any commentary before we begin?

ASSEMBLYWOMAN POU: Thank you so very much, Senator.

I would just want to echo some of the same sentiments that you've just expressed.

Clearly, let me just make mention of two things. Yesterday, in our discussion -- in our Committee's hearing, we -- it really produced conversations that were worth having. It helped to clearly outline the legal parameters of what this Committee can and cannot do. It helped to ensure that any action that we take on pension reform is tempered by that knowledge. And it will help us to formulate potential reforms that won't be bogged down by the legal challenges.

Second -- the second thing I would want to mention is that these discussions, certainly, are part of our obligation to pursue meaningful property tax reform, through an in-depth review and eventual reform of our State's pension and benefits system.

Over the course of the next several meetings, we will undoubtedly identify pension reforms that we can accomplish in the short-term, and others that can only be accomplished in the long-term. There will be many opportunities over the next two-and-a-half months for us to produce meaningful property tax reform, something that we should be ever mindful -- as we continue our work here today and into the future hearings.

I think, with that, it's important for us to take those -- take as much information as we can into consideration before we move forward.

But thank you so very much, Mr. -- Senator Scutari, for that. And I look forward to what Mr. Beaver has to share with us today.

SENATOR SCUTARI: Thank you.

Director Beaver, do you want to come forward?

SENATOR GORMLEY: Can the Committee make comment?

SENATOR SCUTARI: Well, let's have his testimony first. And then we'll take any questions from the Committee members. And then any commentary that you'd like to make, we'll certainly indulge you as much as you'd like.

SENATOR GORMLEY: Okay.

F R E D E R I C K J. B E A V E R: Good morning, Madam Chairwoman, Mr. Chairman, members of the Committee.

I appreciate the opportunity to be here today.

What we're going to do today is take you through a--

Is this working? (referring to PA microphone) This one is not working.

Is this better?

ASSEMBLYWOMAN POU: Try it again.

MR. BEAVER: Okay, got it. Sorry.

What we'd like to do today is take you through a bit of a primer on pension funding, and where the status of the systems are today; and then shift gears and talk a little bit about the Benefits Review Task Force recommendations, and some of our thoughts on the issues raised in that report.

Before we get into the actual presentation or prepared comments though, I would like to address a couple of items that the Committee raised yesterday, and get those out of the way, hopefully -- at least address them upfront.

The first issue -- I think Assemblyman Giblin brought it up -- questions about pension funding, in connection with the OLS recommendation -- or opinion yesterday. The State is not subject to the same regulations that a private pension plan would be. There is no mandate for minimum funding, as required under URISA, or the Internal Revenue Codes. So I just wanted to bring that to your attention. And it is a little different than private sector.

With regard to audits -- also another question I thought you brought up, with the idea of: what happens if someone's salary increases, and it spikes up at the end of a career? Just to reassure the Committee, we have a very active audit process. And it's a multilayered process. Number one, when reports of contributions come in on a quarterly basis from the local employers and from the State, we have an audit team that goes in and reviews reports of contributions to make sure there is no, what would seem to be, improprieties or large changes in salary versus contributions.

We have a second audit that occurs at the time of retirement. And we look at the actual wages, and what's happened over the last -- the wages during the period we're basing the pension on, whether it be three years or one year. If there is a spike, anything greater than 10 percent is subject to a further review. And, many times, it's referred to the appropriate board for action, to determine whether the compensation is credible.

The third level of review is done by our -- we have a specialized audit group that's actually managed by a former SCI investigator. We pretty much act on review of contracts. We review hundreds of contracts a year to determine whether the compensation defined in the contracts is eligible for pension purposes. And, also, they look at the tips we get. We get a lot of anonymous letters, which should be no surprise -- somebody doesn't like the fact that somebody else got a large salary increase. We go out and look at each and every one of those. And they're often referred down, again, to the boards.

The SCI issued a report several months ago dealing with the superintendents. We are currently in reviewing every one of the persons mentioned in that contract, as well as others, for that report -- as well as others who were in the superintendents list. So we do have a very active-- I just wanted to reassure the Committee, we have an active look at the system, over time.

And with that, I'd like to go through the regular prepared comments. And I apologize for not getting these to you earlier. We were pretty busy this week. Unfortunately, I just wrapped up these slides yesterday. So I would have preferred to have them to you sooner. The other thing is, just to reassure the Committee, we will be sending, to the Office of Legislative Services, the data that was requested at the result of the last meeting. I hope to have that in the mail this afternoon, tomorrow morning at the latest, to Ms. Espenshade and her staff.

Today's agenda-- We'd like to talk, basically, about actuarial methodology and the budget implications associated with the pension, a little bit of history on the pension system, what the current status is of the various plans, and then give an opportunity for questions before we segue into the issue of the Benefits Review Task Force.

Again, to the point of-- If you think about what is the purpose of a retirement benefit -- and we heard some of this yesterday in the OLS discussion. But, basically, it's got -- to attract and retain a qualified workforce, certainly is a key element of a retirement system, because that's an important benefit; and then, to ensure an adequate replacement income to career employees. So what's the right level of pay that somebody is going to need to transition from an active employment status to retirement?

The nature of a defined benefit plan-- And, again, we heard some stuff about defined contribution plans yesterday. But, basically, the employer guarantees a specific monthly benefit at the close of a career. The employer makes contributions, the employee is required to make contributions in the State system; and they are different depending on what system you're in.

Just to give you an example: In PERS, the contribution rate is 5 percent of pay -- eligible pay. PERS -- prosecutors' part is 7.5 percent; PFRS is at 8.5 percent; teachers is at 5 percent; judiciary is at 3 percent. So the rate of contribution varies, depending on what system you're in.

The employee does not make the investment decisions. They are made by the managers. Basically, the investment council makes the decisions. The employer and employee contributions grow over time. And this is important, because if you look at the contributions, you look at the-- We'll talk later about the magic of compound interest, as we call it. And then the oversight of plans and liabilities rest with the Treasury

Department, the various boards from an administrative perspective, and the Investment Council with return to the investments.

So the risk: The benefits for the employees are guaranteed, as we heard yesterday. The benefits erode without protection from inflation, but our plans do have a COLA provision. They kick in, in the 25th month of retirement. And, basically, they provide for a cost-of-living adjustment equal to 60 percent of the CPI. And that's on an annual basis thereafter.

The asset growth is not guaranteed. As we saw, we really need to have the steady contributions on the part of both the employer and the employee. The miracle of compound interest is that, as those contributions flow into the plan, the earnings compound over time. So if you look at these things over a 30-year life expectancy of an employee -- or career service of an employee -- you do have a pretty dramatic growth in interest over time.

And then there is an investment risk. As we've seen, there have been years where we've had less than expected returns. The target is 8.25 percent. And we've had years where we've had a negative 14 percent. So we have good years and bad years. But there is some risk involved with the investments.

And if the assets cannot match the promised benefits -- I think this is important -- pension payments have to be covered out of the operating income, through the budget. And that's where it's a very different scenario than you would see in a private sector, where the funds are all trusted. And there is no opportunity, other than to make those steady (indiscernible) contributions.

And tracking the assets and liabilities is key to controlling the risk and to examining the proportion funded -- how much of the plan is funded, and how much is not -- and also to maintain budget stability. One of our problems now is that, because we didn't make contributions for such a long period of time, we saw a huge ramp-up in the required contributions, as you'll see later on today.

Experience determines the key drivers for funding. We do experience studies every three years on all the systems. So we look at what's happening, what is our experience with life expectancy. We look at the size of the workforce. Is it growing or shrinking? What is the length of career service people are reaching before they retire? And what are the salary growths and inflation expectations? Salary growth is an assumption of the plan that drives funding. So if things are happening that are not consistent with what our expectations are, we have to adjust those over time. And the same thing for inflation.

Again, key drivers for funding: Gains and losses are recognized over a rolling five years to limit volatility. So every year, when we do the evaluation, we look at the difference between assets and liabilities -- actuarial assets and actuarial liabilities. And 20 percent of those are recognized each year, so we do not have huge swings in the need to make contributions.

The actuarial value of assets versus actuarial liabilities determines the funding status and the need for contributions. So a few years back -- back in 1999, the year 2000 -- the plans were overfunded because of market returns and the fact that a lot of money had gone in from the pension bonds. We were in a well-funded position. There really wasn't a need to make cash contributions, which led to some further problems.

The funding requires dynamic change over time: I think the normal cost is the present value of service earned for a particular year. As I said, we do actuarial studies on an annual basis. So every June 30, we look at what has been earned for that prior period of time, that prior year. We look at the accrued liability, which is the liability of present value of all past service. And then, when the liabilities exceed the assets, we have an unfunded accrued liability.

So, for example, right now we're talking about an unfunded, accrued liability of about $18 billion of all the systems. That number would then be amortized over a 30-year period. So you've got-- Your costs are driven by your normal service costs and, on top of that, your unfunded liability amortized every year. So it's not like a mortgage, where you do it once and you just pay it out over 30 years. Every year we relook at what is the unfunded liability and reamoritize that for a 30-year period.

The challenge is that, right now, the growth in the cost of pension and other employee benefit programs is ramping up at a pretty rapid pace. And we have to be concerned, in our shop, about the cost of pensions, health benefits, and the other programs. And then your challenge, I guess, is to find the adequate funding to meet the demand for those dollars, against all the other budgetary demands that you face during the course of the budget cycle.

This is a (indiscernible)-- And, again, I'm going to go through these pretty quickly. You've seen these numbers before. But I think what's important on these slides is, if you look at the -- all systems are now funded at 82.3 percent. What's important is, if you look at the liability line, it's been growing at a fairly steady pace. And it kind of spikes up in 2000-2001 a bit because of the "n/55" implementation. But you also see where the asset growth was, you know, down-turned or leveling out. So the important thing in the future is to try to get those lines closer together.

Just real quickly, the PERS State side is below the 80 -- the other -- the aggregate number. Teachers is below the aggregate number. PERS local is in a better position, because they were -- they had a higher excess asset-base than the State did. And when we stopped making contribution we're in a little different cycle. PFRS is far below. They're at 80.1. And the one system we're in real good shape on -- it's a fairly small system, so I'm not going to talk about it a lot -- is the State Police system. We're at 92.6 percent. That's the smallest of all the systems.

Are we alone? And this slide is a little bit confusing. One of the questions that was asked was: Where does the State of New Jersey stand, relative to other systems? And we looked at 125 major public pension systems. This is data compiled by the National Association of State Retirement Administrators. And I'm not particularly happy with the bubbles, but this is their slide and I'm just taking advantage of it.

But PERS -- if you look at 125 systems -- these are state and local systems in some cases -- PERS is ranked at 64th. So it's right in the middle of the pack, in terms of where are we with funding. PFRS was ranked at 70th. Teachers was 84th. And, again, State Police was higher, but it's a very small system.

If you look at the -- where the funding is, 80-- If you look at 80 to 90 percent funding levels, that's where 40 of the 125 systems are. So the majority of systems are clustered in that 80 to 90 percent area. You have a small number above, and a very -- a larger number below. So I'm not suggesting that we're in great shape, but we're not alone. Everybody fell into that same trap with the investment growth issues of the late '90s, and then seeing that downturn, and then, also, the funding requirements. It returned in the mid-2000s. So we're pretty much in the same boat as everybody else.

Just a brief history of how we got to where we are today. If you recall, in '97 we had the issuance of the Pension Obligation Bonds for $2.8 billion and, at the same time, authorized the temporary change in the actuarial methods. So this is the Mark to Market. We went back and revalued.

And to go back a little further, this goes -- actually it started back in '92. In '92, the pension reevaluation-- We changed the measurement of assets from a book to a market value, which resulted in increased funding levels. But back when we did it in '92, many plans were doing it. Because it was occurring to people that as the market grew over time, most pension plans were working with book values. So what we did was not unusual back then. We were trying to recognize the growth in assets and take advantage of that.

In '94, the pension reform revised funding methodology from *entry age normal* to *projected unit credit*. That reduced the contribution for the next two years by about $1.5 billion. Only eight other states use that method of measurement -- projected unit credit method. That was -- I'll talk to -- later about some of the actuarial variances that we probably want to avoid in the future.

But, basically, whenever you change the Mark to Market -- and we had a couple of those -- that's something you might consider to be inappropriate. You do that to avoid putting cash into the system.

The use of surplus assets was authorized to offset the employer contributions. And then at the same time, the State and local employers got the contributions -- there was some reduction in the employee contributions. So you saw a big downflow in the dollars going into the various systems, to the extent that they had excess assets. The employee contributions for PERS and TPAF went from 5 percent down to 3 percent for a couple-year period, and then returned, I think, in January '04.

And we also backloaded debt service. And we saw that slide the last time I talked to the Committee. I showed you a slide that showed what the debt service was on the pension bonds. And that's a huge obligation that's going to go out to the year 2029. So it was a short-term gain, and a very long-term problem.

Again, some more about this-- But on the surplus growth-- We had the positive returns of the late '90s, we had the bond proceeds coming into the pension fund, and we had the Mark to Market. So we had a huge increase in the asset value of the pension system.

Beginning in Fiscal Year 2001, the investment return started going south. And in Fiscal Year -- we started with the process of enhancing benefits. So this is where the "n/55" came in, which added over $5 billion in liabilities to the system. And what was odd about the "n/55" was not so much it was an employee improvement -- or improvement to employees' pensions -- future pensions, but it was also retroactive. And the improvement was made to the retirees, as well.

There was another Mark to Market at that point. So we adjusted, again, the value of the pension system. But we did it on a retroactive basis. And this is very unusual. We're now going back to a '99 evaluation, in 2001, to further inflate the value of your assets.

There were limited or no employee contributions for seven years. And then, by Fiscal '04, the pension holiday came to an end. But at that point, we had budget problems that made contributions difficult; and we had other significant increases in benefit costs. And the phase-in was adopted in Fiscal '04.

The basic problem now is that the liabilities are growing faster than the assets. We've had limited or no employer contribution, we've had benefit enhancements, and they continue. We've got about 200 bills sitting out there right now that would improve benefits in one way or another, maybe for small groups. There's a lot of little one-off bills, special type bills. But there are a lot of bills out there, and they get dropped continuously, that would further exacerbate the problem.

The benefit payouts were in excess of $5 billion a year, and it's growing. Retirees are living and collecting benefits longer. And the actives have higher salaries and more service credits. So people are working a little longer to accrue additional benefits.

We have an experience report that's going to come out shortly that just -- stressing the fact that our system is getting worse and worse, actually. People are living longer. The salaries are going up. We're going to have to adjust some of our assumptions around how we fund the benefit. And we're going to drive our liabilities even higher.

So what needs to be done? This is, like, commonsense stuff. But, basically, make or increase the employer pension contribution. We need to work to improve the investment performance. I know the Investment Council has taken its strategies a little more -- *alternative investment strategies*, as they call it. And they are putting more money into the alternative investments. And the real key here is to try to work to better match growth in assets to liabilities. So you have to look at both sides of the equation. It's not just the investments, it's how you change benefits over time, as well.

I apologize. This slide -- on the side, the graph-- I had trouble fixing the graph. But, basically, if you look at -- the numbers are key, in the blue. We've got about $1.1 billion appropriated this year for pension contributions, which far exceeds what's gone in over the last 10 years. So we have made a major step forward this year in getting money into the system. And that will allow us to get the earnings growth on those dollars as it's deposited.

I'll stop there for -- if you want to hit questions there. I'll leave it up to the Chair, whether you want to hit questions here, or you want to talk to the Task Force's recommendations. But I'll let that be your call.

SENATOR SCUTARI: Why don't you finish up your presentation? We'll take all the questions at--

MR. BEAVER: Fine.

The next piece-- What I'd like to do is talk to some of the Task Force's recommendations, relative to the pension issues. The areas of concern, as we saw it-- And as you asked us, to rank them from 1 to 10, or from 10 to 1, whatever -- highest importance to lowest importance -- in value. It's a little more complicated than that, because some of the changes recommended by the Task Force have very low value, but may be important to the system. So we saw it as being of two concerns. One is, those that would have a financial impact on the system; and those that really deal with the integrity of the system. These are the issues that have been in the *Asbury Park Press* and the different newspapers about what's wrong with the pension system, some of which we've heard in the last couple of days. But we thought it important to separate out the two.

From a system integrity standpoint, the -- and these are the recommendations of the Task Force -- was to make the full actuarially sound pension payments. Since 1997, over $8 billion of contributions have not been made by the employers. That, as you can imagine -- if you look at that over time, and look at the potential for earnings on $8 billion -- could have gone far to alleviate the $18 billion deficit we currently have.

Practice good fiscal stewardship and do not use unsound techniques: This is really talking about -- don't play around with the actuarial assumptions, don't be consistently trying to Mark to Market and change the basis for measurement to achieve some budgetary objectives. The pension system really should be managed as long-term retirement systems.

From a system integrity standpoint: This is the boosting, padding, and tacking. And let me just give you what I think the definitions of those are, for a moment, if I may. The boosting, I would suggest, is the person who comes in, in late career -- works 24 years at a -- or 22 years at a part-time job, some low-paying job -- and last three gets a job somewhere. And all of a sudden-- He's made very limited pension contributions on a very small salary, but the pension is based on the last three years at a high, full-time job salary, for example.

On the padding side-- I would suggest this is the issue I think we saw with the -- which may have occurred at the SCI investigation with the school superintendents. Are they shifting some forms of compensation to base -- shifting away from some extra pay to base salary at the end of a career, to make their pension more meaningful?

And then tacking is the idea of just putting job after job on, and getting a higher pension as a result.

The Task Force recommended that pensions for contractors or vendors be eliminated. There-- A number of cases we saw were people who typically would be self-employed, or employed by another agency. We had occasion where the *Asbury Park Press*, during the course of the Task Force work, cited an attorney who indicated that while he was retained and was earning pension credit, was actually having the work done -- the municipal attorney's work done by members of his firm. Those kinds of things, we think, are somewhat abusive of the system, and should be retained as a contracted employee.

The committee also suggested that the defined benefit participation in PERS would be eliminated for elected or appointed officials. And the idea here was that, for the most part, an appointed official may not expect to put in 25 or 30 years to, obviously, earn a pension. There may be alternative forms of benefits that would be more appropriate, like a defined contribution plan, for those cases.

The no tacking of several jobs is finding a way to limit the number of positions that could be used to drive your pension -- the ultimate pension benefit.

Restrict end-of-career salary hikes: Again, looking to the problem we have where people shift dollars at the end of a career and manipulate the system to get a bigger benefit.

And the last one really is not a State problem. It's more of a local problem -- but the committee thought it was important -- the Task Force thought it important. And that's to deal with the issue of sick-day payouts at the end of a career. We've all seen issues -- articles in the newspapers that describe payouts of several thousands of dollars to end-of-career police or fire officials, teachers, school superintendents. I think that was the thrust of the SCI report for superintendents. But the State limits sick-day payouts at the end of a career to $15,000. And the Task Force had recommended the same kind of approach for local employers, as well.

From a governance standpoint, the committee -- the Task Force wrestled with this one, because there is a body -- the Pension and Health Benefits Review Commission, which has been charged, under statute, with reviewing any pension or benefits-related legislation, any bills, and making recommendations on their adoption or not adoption to the Legislature, prior to being submitted.

The committee meets every six to eight weeks. There's a number of bills that they look at every meeting. And they make the recommendations. What happens after that, we're not quite sure. But the Task Force thought it important that-- Some things that might influence how legislation moves forward is, if there was a fiscal note in the body of the bill. So if there was full disclosure of the cost in the revenue streams for any legislation proposed, it might have some more meaningful impact. And then, also, a certification-- I think this was mentioned last week. Cost and revenue projections are based on generally accepted accounting or actuarial principals. To know that there is real basis for the numbers of any cost projections that are proposed--

What we see as actionable short-term issues: I mentioned one of these last -- a few of these last week. Pension loans, we think, are something that needs some action. Currently, there's over $1.1 billion outstanding in pension loans. And if you look at an interest rate of 4 percent, which is the statutory rate we're allowed to charge, and you look at the rate of return we expect to get on those dollars at 8.25 percent -- if it's invested -- the system is giving up about $45 million a year. So it's costing the pension system. Although it is the employees' money -- I understand that. But the system is expecting to earn an additional $45 million that is being foregone by reason of the loans.

So our suggestion would be either to stop the practice of pension loans or to raise the interest rate to something that's going to match what the system expectations are.

In the area of pension purchases, we'd like to see a way to determine the cost of health care -- to be factored into a pension purchase. In any case where somebody is buying a pension purchase -- many times they'll buy a year or too -- it's to get to the 25 years. So we're developing a cost of a pension purchase solely based on the value of the pension. But that value does not recognize the health benefits are now thrown into the equation as well. So you buy pension credit to get you the free health benefits; and your free health benefits, over 20 or 30 years, is $7,000 or $8,000 -- it's a pretty cheap benefit.

Again, short-term gains-- We think there should be a moratorium on ERIs. That was a Task Force recommendation. We have not seen any case where an ERI has been financially viable. The State ERI, which was launched a couple years back at a cost of about $200 million -- in 2002-2003, the cost to the system was about a $600 million liability. And by 2004, mid-2005, the head counts were back higher than they were prior to the issuance of the ERI. So we actually had more employees, and we have a $600 million increase in liabilities to the pension system.

We'd also like to suggest that consideration be given-- Or the Task Force felt that consideration should be given to a moratorium on benefit plan improvements. Just stop things for a while. And I know -- I think Speaker Roberts had said he would not move any bills forward that involved change or involved cost until such time as the Committee's work was done. And I think that's a commendable approach.

We get these bills constantly. And they are-- If you look at them individually, they don't seem to be that expensive. But when you start piling them up, one on top of another, the costs grow pretty rapidly.

The longer-term solutions: The Task Force recommended an adherence to the "n/55" retirement calculation. We looked at some data, and I will tell you-- And I'm going to send this over to the Committee as part of the data package we send over. The current formula, the "n/55", does not produce an overwhelmingly generous benefit. In fact, if you look at other states-- Pennsylvania, per year, is about 2.5 percent versus New Jersey's 1.8. New York is a little bit higher. They have a little bit different formula, but it still delivers a higher benefit. So if you start looking at the other systems, it's not so much that it's an overly generous benefit. I think it was how it was done that causes some heartburn. It was done without full disclosure of what the anticipated cost would be. But I don't think it's an overly generous benefit. Maybe the timing was off a little bit, but it is within the pack. And you'll see that when I send the data packages over to you. You can look at the other states and see what they're driving to.

It was also unusual -- as I said earlier -- in the regard that it was extended back to all existing retirees. That's something that's not common, either in public or private sector. So to take those costs-- That was another $2 billion. So that was a pretty expensive gift.

The committee recommended -- the Task Force recommended anti two-tier philosophy. But I would suggest that's something, given that this Committee has been formed, that you probably want to consider. And we will have an actuary next week to make a presentation to you on different forms of pensions. And it's not just the 401(k) plans. There's a lot of different opportunities out there today that, I think, the Committee should at least hear about. And that will occur, I think, on the 31st.

Provide for part-timers was another recommendation. And while we would agree with that at the Division, I think it would -- I would encourage the Committee to think about what is the right form of retirement benefit for a part-timer? Is a $1,500-a-year salary where you want to drive-- I mean, that's basically what gets you into the pension system. So if I earn $1,500 a year for 20 years, should I get a benefit? Or maybe, should I consider something like a defined contribution plan -- where you can still provide some compensation to somebody, but it may not look in the form of a defined benefit, which creates the opportunity for abuses down the road. This way, you get the 22 years of part-time, and then slip into something else in the last three years.

The Task Force also looked at the early retirement age. And this is an issue -- looked at the early retirement age of 55. And I would suggest that this is an outlier. While the "n/55" is not an unusual formula, the opportunity to retire with full benefits at age 55 is a very generous benefit, when you look at it compared to other public pension systems. And that's something that you will have to wrestle with. That's a very expensive benefit.

The estimated savings on this one-- It's hard to get your hands around it, because it could be long-term. If the legal constraints we heard about yesterday hold true, then obviously this is going to be something that would only affect future retirees -- or future participants.

And then, I wanted to just talk briefly -- just so the Committee is aware of the types of retirement. And we talked about this age 55 versus age 60. An early retirement is a person who could retire at age 55. If, at age 55, you've got 25 years of service, you walk out the door. What I think is important to understand is the service retirement. The service retirement is at age 60. So, at age 60, whether you're vested or not -- and this is a very unusual feature in a pension system -- you can retire, whether you've got four years, or eight years, or seven years. You have the benefits figured out on what your actual service is. You are vested at age 60. So I think that's something that the Committee needs to seriously consider, because that is a very unusual benefit.

Just the disability benefits-- I mean, they are all over the lot. The ordinary disability in most systems is 40 percent of pay; accidental disability in police and fire is two-thirds of pay; in PERS and teachers it's in excess of 70 percent of pay -- final pay. So it's a very generous benefits system.

And I just want to make a point here. The real point here for me is on the service retirement. That's a very unusual feature you might want to focus on.

Again, longer-term solutions: The committee -- the Task Force talked to no pension credits for jobs paying less than $5,000. And I think the Governor, in his budget address, talked to an hour limit, similar to what is done under the Federal standard -- URISA. Under private sector rules, basically you have to work a thousand hours to get a year's service credit. It might be more meaningful. That really gets to the issue of what is a full-time, or what is a less-than-full-time employee. But who do you want to drive pensions for? What's the right audience?

And, again, recognizing that there are other alternatives out there for people who may not be career employees-- If you go back to the original slide-- If the goal of a pension system is to provide replacement income for career employees, what is the right direction for the Committee to take?

There are some other recommendations. I'll put these out quickly. But there are-- The life insurance is tied to the pension system. It's very unusual. The first thing we need to do is try to break those apart. But, basically, you've got different levels of benefits in all three systems --

the major systems. PERS is one-and-a-half times base salary, employer paid; teachers is two times; and PFRS is three times.

What's the logic for that? These things have expanded over time in individual pieces of legislation. There's been no comprehensive look at the systems to try to rationalize the level of benefits being provided. I would suggest that the system needs an overhaul. It's an opportunity to break the linkage to pensions, make the life insurance a stand-alone program. The standardizing employer-paid benefit-- Because that's all it is, an employer-paid benefit.

And then allow employees to buy optional forms of coverage. The system today requires new employees to buy insurance in the first year of employment, and then to -- give the opportunity to end it after the first year. And if they do so, they can never get back into the system. So it doesn't really address the whole issue of lifestyle changes. Because you hire young employees into the system. They get married, they have families, they buy houses, they incur expenses. At what point do they need the insurance? We don't give them the opportunity to participate in our system. It's a very antiquated model. Again, I'm just throwing this out as an opportunity as we're looking at all these programs.

Amend the dual pension and salary issue: We've got a lot of cases out there of retirement and reemployment. And, again, we have inconsistencies in application. If you retire from a PERS job, and come back to work in PERS -- a PERS-eligible position -- you can work and earn up to $15,000 per year. If you retire from a teaching position, and come back to teach, you can earn up to $500 a year. If you retire from police and fire and go take a PERS job, there are no limits on what you can earn. So there are a lot of inconsistencies in application that have evolved over time that we think the Committee might want to consider addressing.

It's very complicated to administer. It's complicated to manage. The participants have a huge problem. We have these cases before the pension boards every month. We're asking people to pay the pension boards back thousands and thousands of dollars, because it is such a complicated process. And it might be an opportunity to fix that, as well.

The pop-up in the pension system: This deals with the whole idea of naming a beneficiary for your pension at retirement. If you name a beneficiary to receive some amount of your benefit upon your death, and then that beneficiary predeceases you-- If you elected one of the pop-up provisions, you go back to your original, unreduced benefit. It's not a bad provision, but most plans have a time line that allows you to make those changes. They'll either say you've got the change for five years -- within five years of your retirement date it will work. Otherwise, you're just frozen. Or, by age 65-- There is some other measure, so it's not a lifetime opportunity. That does put more risk back onto the system. Our recommendation would be to limit that pop-up to a period of about five years, or up to age 65 is another alternative.

The COLA: As I mentioned earlier, the COLA is out there for retirees. At the 25th month, they're eligible for COLA increases at 60 percent of the CPI for the prior year. And then each year thereafter, they are eligible for a COLA. What's unusual here is that you provide COLA to vested employees. And these are basically-- If you think about this, it's an employee who worked -- for example, started with the State or local employer at age 21, put 10 years in, left at 31, has been gone for 29 years, comes back and gets their pension. At that point, we treat them just like a retiree, which is somewhat unusual. Most plans would not give that person the same level of benefits that a true career employee had, for example, and might not provide -- or provide a very limited opportunity for changes in their pension at retirement. So we think some opportunity for change is there, as well.

The Task Force also made a recommendation to look into disability insurance as opposed to disability pensions for some of the systems. Today, there is no middle ground. Because of the way the sick-pay systems work, and the TDI system works, at some point, if you're out on a disability for an extended period of time, you often have to apply for retirement -- disability retirement, be it ordinary or accidental.

If we had a disability -- a long-term disability program in place -- at least for the non-uniform services, because their jobs are very different -- you would have an opportunity to provide salary replacement while disabled, but would allow more time to determine if an employee can actually be returned to employment; and could provide an adequate benefit up to such time as that employee could qualify for later retirement. The estimated annual savings on that to the State are about $28 million a year, and to local employers it's $53 million. They were actual dollars that the actuaries developed for us, based on what we see in the pensions system today.

Just a general comment: This is something we're going to throw in since we have the opportunity. The pension laws and regulations are too complex, costly to administer, and almost impossible for the average member to understand. If they've got any little complexity in their employment status, we have problems.

Some of you may recall there was just a bill passed and signed last year that dealt with some volunteer firefighters and gave them the opportunity to come into the pension system though they were overage. We recognized some other service. And it was -- it solved a lot of problems we were having before the police and fire retirement system board with overage hires, and we thought the problem was solved.

Unfortunately, when the bill came through, we recognized that it dealt only with municipal employers. And fire districts were excluded. So now we've got-- The bill had all good intent, it solved the problem, but we now have another glitch. So we have a lot of those issues out there with the language of the bills. It would be an opportunity to simplify, today, what we're doing, and make these things easier for the participants and for the administration to manage.

And with, I'm going to end.

SENATOR SCUTARI: Director, thank you very much.

Obviously, there are a laundry list of things that we can still do that wouldn't necessarily have a detrimental effect on the members of our pension community. But we certainly would be able to do away with a lot of the complexities, making your job a little easier; but also give a better streamlined understanding to our employees as to what they'd be working towards.

So I think that there is a lot of opportunity here to make some of the changes that you've recommended, along with the Murphy report; and to get together with the other members of the Committee here so we can come to an understanding and an agreement on some of the things that we're going to administer.

With that, I'll take some questions from--

Assemblyman O'Toole, I'll start with you.

ASSEMBLYMAN O'TOOLE: Thank you, Chair.

But the microphone is not working. (referring to PA microphone)

There you go.

Thank you, Chair.

I have a few questions. And if it gets too long, Chair, if you want me to come back for a second round, just let me know.

Okay.

Good evening -- good afternoon.

You were here yesterday, during the Peter Kelly testimony. And he talked about the 1997 opinion. And do you have an opinion as to whether the clause -- the Eclause -- that says the states may alter, amend, or modify retirement systems -- is something that we can deal with or not deal with?

MR. BEAVER: I am not an attorney.

ASSEMBLYMAN O'TOOLE: Well, does your department have an opinion?

MR. BEAVER: Well, I-- The language that you cite is the same type of language we typically would see--

Sorry.

The language that you mention is typically the same kind of language you would see in a private-sector plan. So I mean, I'm just--

When you talk about a legislation that's trying to bring a plan into compliance with the Internal Revenue Code-- And, clearly, the Internal Revenue Code does permit future changes in benefits. They have what's called an *anti-cutback* provision, which means you cannot reduce a benefit accrued up to a point in time when you make a change. But it does allow for changes.

So it just seems to me that the language -- again, as a non-attorney -- seems to be in conflict.

ASSEMBLYMAN O'TOOLE: Thank you.

And just in broader context, for those who are just tuning in-- In Governor Corzine's budget address, he talks about how Governor Codey said the State was pretty much broke. And Governor Corzine was pretty much in agreement. He goes on to say that the day of reckoning is upon us. He talks about, in his budget summit, that we are on the verge of disaster.

Now, I don't think we're really being-- I don't think we're exaggerating the terms when Governor Codey and Governor Corzine are talking about the nature of the problem that's confronting us. And having heard your comments about this $18 billion unfunded liability, I am more terrified that-- I think the problem is much larger than those of us have probably thought.

So a couple of questions, in going through your testimony: Is this $18 billion of unfunded liability-- Is this a real number or is it $18 billion -- is it amortized over 20 or 30 years? Is it really a $30 billion number? I'm trying to get my arms around what $18 billion really means, if you can walk me through that.

MR. BEAVER: The $18 billion is the difference between the actuarial assets, again, which does not recognize -- it only recognizes the gains and losses on a smooth basis -- 20 percent per year -- against the liabilities. So while we have-- I'll just give you an example. If we are funded at 82 percent -- which is the number I used, I think -- it means that we've got $82 billion sitting out there available to pay benefits equal to $100 billion.

The problem you have is, if you look at-- And it's been cited different ways by different people. The $18 billion, on a market value basis -- which if we had to cash out the plan tomorrow -- the difference is probably closer to $30 billion.

ASSEMBLYMAN O'TOOLE: It's a $30 billion number -- is what you're looking at.

MR. BEAVER: But it's also a number that is kind of a-- If you look at the pension system as being -- having a life of it's own, and in perpetuity, it's going to-- At some point, if we start making contributions, we return to full contributions, you start getting your returns to exceed the 8.25 percent expectation-- At some point, the plan would be recovered to a point where you don't necessarily have to be at 100 percent.

ASSEMBLYMAN O'TOOLE: And where in the future is that point? Let me just-- Having asked that, I think what was striking about your testimony is that from 1997 to 2006 the State contributed, I think, a paltry $860 million -- which is, frankly, embarrassing, from a public policy standpoint. I think it's probably the dumbest public policy maneuver I've seen in the State in the last 30 years, having worked in some capacity here.

And you saw Governor Corzine put $1.1 billion in contribution. That's a real stark contrast of what was done in the last 10 years, under Democrat and Republican stewardship. I think it was probably a very unwise move to contribute the $860 million over the course of the nine or 10 years. Would you agree?

MR. BEAVER: I wouldn't disagree. (laughter)

ASSEMBLYMAN O'TOOLE: But you would not agree.

The nature of-- Well, when you talked about where New Jersey stacks up in relation to other states-- While we are all kind of bunched together in the 70 or 80 -- with exception to the State Police, which clearly has a reconciliation of the assets and all the liabilities -- it appears that we are bunched up somewhere in the middle of other states. And my question is, have you done the analysis one step beyond that? That those states that are bunched up with us -- do they have the type of financial condition that New Jersey certainly suffers from? And we have this deficit projected out that only, I think, Mississippi and Louisiana have. The other states -- do they have the same financial problems that New Jersey's confronting?

MR. BEAVER: I don't know. We haven't done that depth of analysis. But, I mean, what we've heard is that there are only a few states that are running in deficit situations right now. But I think the ironic part is that there -- even if they are better off financially, from an overall budgetary perspective, they're still running into the same problems on the pension side, because they've done the same things. Whether they are well-off from a budgetary standpoint or not, they were withholding moneys going into the funds. They were using the surpluses to avoid contributions. So everybody was taking the same approach.

ASSEMBLYMAN O'TOOLE: Walking through your testimony, you spoke of the nature of investment and how, in Fiscal Year 2001, we started seeing -- whether it was the stock market or other conditions that caused the stop of the escalation of our investments, so to speak -- and either flattened, and certainly declined.

What went wrong, other than-- Was it just market conditions? Was there a mismanagement of the funds? Was there some failure to lead, or have proper oversight of the investment? Was there a failure to diversify? Were we too conservative, too liberal? Did something-- What else happened besides-- I don't just buy it's market conditions. I have a hard time accepting that.

MR. BEAVER: Well, clearly, I mean, the stock market went into a pretty significant slide back in 2001. And as I understand it -- I don't like to speak for the Division of Investments -- but a large chunk of the overall assets -- pension assets -- were tied up in equities. So to the extent there wasn't a very diversified portfolio -- might have incurred some additional risk. But I'd prefer to defer that question to the Division of Investments. I can get more facts to you. I can seek facts.

ASSEMBLYMAN O'TOOLE: I'd like to know that, through the Chair. If you could just submit that to the Chairs, and have that diffused down to the members and staffers.

I'm just trying to understand how is it we got there; and who was minding the store, so to speak; and who was in charge; and, ultimately who was responsible, if anyone. I just tend to think that someone has to be accountable in government. And that's been a failure on many fronts in the last few years.

Director, you spoke about some recommendations. First of all, you said there are 200 bills, now, that are out there, that would exacerbate a bad -- make a bad situation much worse, in terms of favorable pension conditions that would be granted if legislatively approved. My questions: Are there any bills that would do the opposite, that would strengthen the current pensions? And you cite to the -- the 55 to 60. You're saying that should be done almost immediately -- moving the retirement age?

MR. BEAVER: I'm suggesting the Committee should consider it. I'm not sure what can be done, from a-- Again, we're also waiting for an AG's opinion on what can be done to go along with the OLS opinion. So I don't know what can be done from a legal perspective. But it's something we think is an outlier. It's not something we typically see in the other public systems. Full retirement at age 55 is somewhat unusual outside the uniform services.

ASSEMBLYMAN O'TOOLE: So it seems to me -- market conditions have changed, there's an increase of people that are in the pension system, it seems retirees are living longer -- so it seems the deal that was on the table 10 years, or 15 years ago-- There seems to be many other variables that have come into play that have really changed the dynamics of this whole pension system.

MR. BEAVER: Absolutely. And that's why we do an experience study every three years. But, again, it's been an upward trend for the last couple of studies, in terms of life expectancies, and the-- Well, the inflationary pressure has not been that great. But the salary increases, and the size of the workforce, and the number of retirees who are living longer has changed.

ASSEMBLYMAN O'TOOLE: One of your recommendations, through the Chair, is that you have asked for -- or you think a good move is to -- the $1,500 threshold be moved to $5,000. Why did you settle on $5,000, as opposed to $10,000 or a full-time status?

MR. BEAVER: Well, the $5,000 was the Task Force's recommendation. I personally-- I think, from my perspective -- and I think we've talked, just in my staff -- and I know the Governor mentioned it -- I think it would be more appropriate-- I mean, what is the definition of a full-time employee? Who do you want to provide a pension for?

The State-- It's easy to define a full-time employee. It's somebody -- at least 35 hours a week. There is a definition in the regulation and some of the statutes about what is a full-time employee, who is a non-State employee. So the local employers are all over the place. From a health benefits perspective, you can be a full-time employee with 20 hours a week.

So we did a survey about two years ago with the police and fire system to define full-time officers for another purpose. And the full-time requirements for many towns and municipalities were anywhere from 20 to 35 hours a week. So it was tough to get a handle on what's the right number to go with.

ASSEMBLYMAN O'TOOLE: We heard Governor Corzine state that perhaps -- the thousand hour threshold. And I suspect that falls in line with your 20 hours a week, times 50, and maybe two weeks for vacation. Would that be something that you would look at favorably?

MR. BEAVER: Yes. That's a basic URISA standard. So that's a standard that's been well-recognized, nationally. The Department of

Labor uses it. In order to accrue service credit for a year, you have to put in a thousand hours. If you don't put in a thousand hours in a year, you don't get service credit for the year.

ASSEMBLYMAN O'TOOLE: See, to me, what is troubling-- There was a study done by Rutgers, by Professors Seneca and Hughes, that said, from 2000 to 2005, 7,800 private-sector jobs just left New Jersey. And during that same time, 56,600 public-sector jobs popped up across the State, and county, and local levels. And I think that's part of the-- We have yet to see all of that rush, because those people have not vested if they're under five years. That's another 56,000 people we're jamming into the system at some point -- five, 10, 15 years down the road. And if we continue at that growth, I don't know how we're going to meet any of these obligations. The $18 billion to $30 billion obligation could be a $100 billion obligation.

MR. BEAVER: If I can just comment. The people that are in the system today that have not yet vested, they have not hit their 10 years-- They're all counted. When we do our evaluation, we count all those in as future liabilities. So there's an assumption about how many people will leave before achieving three years, or five years, or 10 years, or whatever; what's the rollover rate -- turnover rate. So they are all factored into the system and are in our projected liability. But our projected liability only goes out one year.

ASSEMBLYMAN O'TOOLE: Two other questions and I'm done, Chair. Thanks for the latitude.

The issue about moving either those who are under five years or new employees to a 401(k) scenario -- and we'll have to look at that. Here's the question: If, hypothetically, we move all new employees, from tomorrow, into a 401(k), or no pension at all, or to some other variation as to what there has -- in existence today -- will the funding mechanism for PERS and others be impacted? Because now you have new employees who are not going to contribute to the financial health of that fund.

MR. BEAVER: PERS will not necessarily be affected, but there will be no immediate savings realized either.

ASSEMBLYMAN O'TOOLE: That's not my question. My question is: Will-- Say PERS, for instance-- If we say all new employees today-- We close PERS. And everyone who's in there gets taken care of as guaranteed, or contracted, or legislatively thought. But those new folks are going to be put in either a no-pension system, a 401(k), or some other mechanism. My question is: Ten or 15 years from now, you have *X* -- you have more retirees. Who is going to fund the benefit for those retirees in the current PERS system, if you don't have new employees putting in their contribution, and the employer contribution matching it? Do you understand what I'm saying?

MR. BEAVER: Yes. I hear what you're saying.

Let me just check one thing.

ASSEMBLYMAN O'TOOLE: Sure.

MR. BEAVER: There would be no negative impact. I mean, if the employer contribution stayed level -- let's presume 5 percent -- the employee-- Again, we're going to look at the actuarial obligations each year. There could be some minor impact on the employer side. But it should not be a meaningful impact. Hypothetically, you're funding your own benefit over time.

ASSEMBLYMAN O'TOOLE: Okay. And maybe if you could just put that on paper for me to understand-- If we close PERS today, or police and fire today, and started some other-- How is it that those pensions will fund themselves if there are less contributors going forward, but we're carrying the current load of employees in those systems? If you could just have that worked out and given to the Chairs. Take as much time as you need. Because I'm trying to understand that.

MR. BEAVER: I'd be happy to.

ASSEMBLYMAN O'TOOLE: Okay.

And my last question is: The system integrity issues about ending boosting, and padding, and tacking; and the vendors-- I mean, I like all of those. And how is it we are going to get to those reforms? How is it we get from identifying the problem and start fixing this problem?

MR. BEAVER: Requires legislation.

ASSEMBLYMAN O'TOOLE: Legislation. That's it.

MR. BEAVER: It's all-- And, again, dealing with the issue-- I mean, you talked somewhat to the issue yesterday -- of the person who has four or five jobs, for example. And could you cut out any of those jobs? I'm not sure, legislatively, you could do that. Again, you'd have to get clarity on that issue of: what do you do to a person who has got more than five years, or is vested? Is that a detrimental impact on that individual? And that may be something you'd have to do over time.

ASSEMBLYMAN O'TOOLE: I thank you for your testimony.

SENATOR SCUTARI: Thank you, Assemblyman.

I just want to follow up on two things.

That piece of information that the Assemblyman -- with respect to the future funding of a PERS system that may not have any new enrollees -- when you get an opportunity, to provide that. Because that is an important piece of information for people to understand. You've given a general answer that says, "Well, there won't be any negative impact on the PERS system, based upon no one else funding it other than the State." But we'll need to see that in writing for that piece of information. Because that might be important to note.

And also, just to respond-- Obviously, a package of bills would have to be implemented to eliminate many of the things that you've discussed. And we'll sit down and hammer that out at a later time.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Director Beaver, in your report, you mention about governmental units making quarterly reports. Why not monthly remittances?

MR. BEAVER: We are working on a system redesign right now. The systems have been set up to do it on a quarterly basis -- the computer systems, to the extent that they remit employee contributions -- just employee contributions. Their employer contributions only come in once a year. They are reporting on their employee earnings for a quarter time--

ASSEMBLYMAN GIBLIN: They only remit contributions once a year?

MR. BEAVER: The employer does, yes. The employer makes payments April 1 of each year -- the local employers.

ASSEMBLYMAN GIBLIN: Okay. If money was deducted from a participant's salary, it's only paid on April 1?

MR. BEAVER: No, the employer's share is paid on April 1. The employee's share is remitted quarterly, with the report of contributions.

ASSEMBLYMAN GIBLIN: Okay. Is that a rule of the pension fund -- doing it on an annual basis? Or is that a legislative issue?

MR. BEAVER: I apologize. Money comes in monthly. I apologize.

The employee contribution, right?

UNIDENTIFIED SPEAKER FROM AUDIENCE: Yes.

MR. BEAVER: The employee contribution comes in monthly, it's reported quarterly, and then we reconcile everything.

ASSEMBLYMAN GIBLIN: Okay. The employer only comes in once a year?

MR. BEAVER: The employer comes in once a year.

ASSEMBLYMAN GIBLIN: Is that something -- a practice that--

MR. BEAVER: That, I believe-- Let me just--

That's in statute.

ASSEMBLYMAN GIBLIN: Okay. Well, it seems to me, in the private sector, if you have a contractual agreement with a bargaining unit, you've got to make monthly reports. And, in fact, the trend now is even to e-mail the reports. Are all these reports done manually or by e-mail?

MR. BEAVER: No, we now have them done e-mail. It's all done electronically.

ASSEMBLYMAN GIBLIN: Okay. The other issue about the check-- How do they send the check in?

MR. BEAVER: The checks come in electronically, for the most part, as well.

ASSEMBLYMAN GIBLIN: Okay. But you have to admit, if an employer is only paying on their share once a year, on April 1, you're losing a tremendous amount, as far as investment income is concerned, versus them paying quarterly or monthly, correct?

MR. BEAVER: I wouldn't disagree. I think there's-- I mean, again, it's a statutory requirement. And I think there's some issue about the cash flow at the local municipalities, as well. So, I mean, all those things have to be taken into consideration. This has been long-standing. This is not something that's new.

ASSEMBLYMAN GIBLIN: No, I understand it's been long-standing. But it has to mean a lot, if I can hold back my contribution, as a governmental entity, until April 1 each year. And I get the interest on the money, versus the pension system getting the money. It has to be dramatic, as far as that's concerned.

What about the delinquency of these governmental units? Is there any policy on that? Suppose April 1 comes and they don't pay. How much leeway do we give them?

MR. BEAVER: Well, we charge them 8.25 percent interest on any late payments for the period of time it's delayed.

ASSEMBLYMAN GIBLIN: Okay. So they know, come April 1, if they don't pay, they've got to come up with that.

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: This issue of the actuarial report-- When was the date of this actuarial report that's bantered around? Is it June 30, '05?

MR. BEAVER: For most systems, June 30, '05, right. The June 30, '06 report -- we're just starting to collect the data to send to the actuaries now. That will be submitted to the board sometime later this year.

ASSEMBLYMAN GIBLIN: Okay. But in this new report for June 30, '06, there was a holiday, as far as the participants were concerned. They reverted from 3 back to 5?

MR. BEAVER: That was actually in--

ASSEMBLYMAN GIBLIN: The year before?

MR. BEAVER: '04.

ASSEMBLYMAN GIBLIN: Okay. What about the employers? When did they revert back to their funding?

MR. BEAVER: Well, they've gone -- phased in since '04. And some funds are at different levels. This year, the PERS system will be required to contribute at 80 percent for Fiscal '07 -- 60 percent for PERS and 80 percent for police and fire, for the local employers, for Fiscal Year '07. And then it will be 80 and 100 percent next year.

ASSEMBLYMAN GIBLIN: Okay. Is there any way of getting any preliminary numbers from the actuarial firm, in a month or two, about what the June 30 report says, as far as the unfunded liability is concerned?

MR. BEAVER: It probably wouldn't be available until closer to Christmas, sir.

ASSEMBLYMAN GIBLIN: Okay.

MR. BEAVER: It's a huge number-crunching exercise.

ASSEMBLYMAN GIBLIN: For people to get health benefits in the State Health Benefits Plan, is there an income criteria, dollar wise?

MR. BEAVER: No.

ASSEMBLYMAN GIBLIN: So if I make $1,500 a year, I can get health benefits? I don't think so.

MR. BEAVER: Well, if you make $1,500 a year-- If you're in the pension system, and you're classified--

ASSEMBLYMAN GIBLIN: Well--

MR. BEAVER: You have to be classified as a-- You have to work more than 20 hours a week as a local employee. The criteria is, you have to be -- you have to work more than 20 hours a week for a local employee.

ASSEMBLYMAN GIBLIN: Okay. But how does it happen, in some small towns, that elected officials might be making $2,000 or $3,000 a year -- are getting health benefits. I noticed there was one in Manasquan. They just voted to eliminate health benefits.

MR. BEAVER: There's a separate provision for elected officials, in statute.

ASSEMBLYMAN GIBLIN: Okay. So there's no income--

MR. BEAVER: Right.

ASSEMBLYMAN GIBLIN: I thought that--

MR. BEAVER: Elected officials are the only variation, right.

ASSEMBLYMAN GIBLIN: Well, I heard one time that there was a $12,000 minimum to qualify for the State Health Benefits Plan for non-elected officials. Maybe I'm wrong.

MR. BEAVER: It's an hours-of-service rule. They have to-- On the State side, you have to be a full-time employee, meaning at least 35 hours a week. For the local employers, you have to work at least 20 hours.

ASSEMBLYMAN GIBLIN: Okay. This issue of the pension loans-- I know there's a variation. You've got that 8.25, you say, that you could charge. They're only being charged 4 percent. Is that another issue that has to be dealt with by the Legislature -- if that wants to be changed?

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: Because, like, hypothetically, if you have a policy loan on an insurance company -- they're about 8 percent today. They got wind of what was happening to them also.

The change that was just made with the Division of Pensions-- What percentage of the assets of the pension plan are-- Is it 25 percent now -- that they're going to be using different investment variables? I mean, there was a decision made about a month ago. Tell us what that's about.

MR. BEAVER: I'd love to. That really isn't my area. That's the Division of Investments. I think the total was somewhere less than 20 percent, or around 20 percent. But that really is a -- it's a number I'd have to get for you from the Division of Investments.

ASSEMBLYMAN GIBLIN: Okay. When you made a change like that, you had an actuarial assumption of 8.25. Was there any representation made by these pension folks that this amount is going to be increased to 10 percent or 11 percent? I mean, was there anything like that? I mean, why would you change if it's not going to be an increase?

MR. BEAVER: The actuarial estimate-- Well, let me separate them out. Again, the Division of Investment and the Investment Council made a decision based on what they thought produced greater returns for the State pension funds and other investments. Because it's not just the State pension funds that are involved.

The actuaries' recommendations, or the actuaries' use of 8.25 percent is a long-term expected rate of return. So it's got the ups and downs. But it has no-- At some future date it could be looked at. But it's not necessarily tied to investment returns.

ASSEMBLYMAN GIBLIN: Do you know if we've been meeting our rate of return, as far as the 8.25?

MR. BEAVER: I can give you--

ASSEMBLYMAN GIBLIN: Going back five years.

MR. BEAVER: Yes. Let me-- I have the numbers right here. Just give me a second.

I know I have them in the book here. Just bear with me a second. Well, I thought I had them with me. I think the last-- We had a-- I think, in 2001, we were like a negative 14 percent. Last year, we were about 9.6 percent. This year, we're running-- I think it was-- I can get you the five-year return. I'd be happy to deliver that, through the Chair.

I have it here. I'm sorry.

In 2001, we had a negative 10.4 percent. And at that time, the system's rate of return was 8.75 percent. In 2002, we had a negative 9 percent. Again, this was when the market was going south. In 2003, the returns were 3.3 percent. In '04, we had a 14.1 percent return. In '05, 8.7. And we're running just over 9 percent so far this year.

ASSEMBLYMAN GIBLIN: With the insurance program, there's no sliding scale when somebody gets to be 65, as far as the -- like it happens in the private sector? In other words, in the private sector, a lot of times, because of the mortality rates, people get to be 65 -- when you're 66, you get less insurance; when you're 67, you get less insurance; when you're 68, you get-- We don't have any program like that in place, right?

MR. BEAVER: No, sir.

ASSEMBLYMAN GIBLIN: You mentioned before about the raise in the age from 55 to 60. Troopers have a, what, mandatory 55 retirement?

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: Wouldn't that have to be changed then?

MR. BEAVER: I think, when you look at the uniform service, they're very different from an occupational standpoint. I'm not sure I'd take that same approach with the uniformed services, sir. That's not as unusual, when you look at the other police and fire services across the country. And I'd be happy to get you data on that. But they typically have an opportunity to retire at a lower age because of the nature of their work.

ASSEMBLYMAN GIBLIN: What about disability pensions? Do we follow those folks, hypothetically? I mean, somebody applies for a disability. They say they can't work. And then, five years down the road, they're working somewhere else. Is there any provision on that? Do we make them sign a certification that they're still collecting-- Do we make sure they're on Social Security Disability?

MR. BEAVER: Well, there is no requirement to be on Social Security Disability. That's a separate issue.

But what we require--

ASSEMBLYMAN GIBLIN: In the private sector they make you-- That's the criteria. That's the litmus test. You've got to be on Social Security Disability to get a disability pension.

MR. BEAVER: That's not a requirement of the State. It requires that two doctors certify the disability. We then send it out for an independent medical examination -- in many cases, the State requires -- and submit it to a medical review board to attest to the disability. Typically, at that point, there is not--

And, again, the standard is that you can't return to that particular job. It's not about doing something else. There are some restrictions in two of the jobs in PERS and teachers that, if you do leave the State on a full disability, and you go to work somewhere else, your benefit can be offset by the earnings from that outside employment.

We do link our information to the Department of Labor to see if people are working in the State of New Jersey. We can see if they've got outside earnings besides their disability pay. And, in such cases, we go and seek to retrieve moneys.

ASSEMBLYMAN GIBLIN: Okay. One final issue. You mentioned, before, about these 30 bills that could be detrimental to the health of the PERS or the other plans. When those bills are considered down the road, do you intend to testify against them, or at least bring out the implications of these bills?

MR. BEAVER: We typically submit written recommendations, through the Treasurer's Office, to the Legislature. We also-- I also serve as the Secretary to the Pension and Health Benefits Review Commission, and have an opportunity to present information. Not secretary -- but we present information to the Pension and Health Benefits Review Commission, at the time they're reviewing bills, to give our view of what the risks are, and what the potential cost of the bills are. Yes.

ASSEMBLYMAN GIBLIN: Okay. The State made a contribution of $1.3 billion to the pension plans this year. What number do we have to do next year?

MR. BEAVER: Actually, the State-- It was targeted to be $1.3 billion. It was reached -- and set down to $1.1 billion.

ASSEMBLYMAN GIBLIN: Okay, $1.1 billion. What do we have to do next year?

MR. BEAVER: We won't know that until we get these actuarial reports in.

ASSEMBLYMAN GIBLIN: Well, do you see it being less?

MR. BEAVER: No, absolutely not.

ASSEMBLYMAN GIBLIN: Okay. Well I think you have to make that clarion call that this has to be a must, as far as the budget for next season.

Thank you.

SENATOR SCUTARI: Thank you very much, Assemblyman.

Senator Rice.

SENATOR RICE: Thank you, Mr. Chairman.

Let me apologize for coming to the meeting late. I was in the State House at 8:15, meeting with constituents from Senator Connors' district.

SENATOR SCUTARI: I saw your car earlier.

SENATOR RICE: That's right, you know.

Also, I just want to preface my remarks by hoping that the press, when they're not clear on what I say or what I intend to say, to please approach me. And I will give you clarification. I'm reading these clippings, and it indicates that I'm balking at elected officials' salaries or pensions because I used to be Deputy Mayor.

Let me say to the media, you don't know me very well. You peg me with everybody else. I don't balk at anything. And that wasn't my issue yesterday.

The issue is very clear. This Committee is supposed to determine how we can legally save dollars without violating or doing harm to people who work every day and pay into a system of government. And what I said yesterday, as it relates to elected officials-- When the issue was raised, I said -- I intended to say, if you misunderstood it -- is that every time we talk about two pensions, we only mention elected officials. I said the legislators do that. And I think the legislators should stop doing that -- if, in fact, they're going to play politics with the pensions for elected officials. So I didn't mean that I don't have a problem with one-pension plan.

What I also said is that it is about economics. And the economics of it-- If, in fact, you only look at elected officials-- My question was: What are the real savings? I don't believe they're going to be significant or substantial at all, which means we're playing frivolous games with the public by not identifying real economic sources and opportunities to reduce.

And then I pointed out that I wasn't talking about us, because I didn't see anything significant there. But then I raised the question -- because there was workers there. I said, "What happens if that worker -- not elected official -- the worker happens to be in the two plans, making $18,000 a year over here, and another $15,000 or something there? How does that work out?"

And so I'm not balking. So please make that clear. I can't control your media, but I believe we're being transcribed here. And the public reads this stuff, and they don't get clarity from us, because we don't know which public is giving their own interpretation. And don't dislike me for being open with you, because I've always been kind to you.

Now, the question-- My concern is, have we done any analysis on what would be saved? Let me back up. Let's talk about "two pensions." And we're not going to talk about any specific group. We're just going to talk about workers. All of us are workers. If a person is a 20-hour employee -- and I know some -- and then they go someplace else and work 20 hours, 17 hours, but they're in the same -- they're in the plan -- how does that work? And after you explain how it works-- If I'm in two plans, but I don't take that job -- Senator Gormley has the job, he's getting the pension -- am I really saving money? I'm trying to figure out-- I'm confused about how -- where the savings are, in terms of an employee -- not an elected official, an employee, because we get elected, we come and go -- in the system. How do we save by looking at "a plan?" Because I always thought that if I'm in a system, and I'm making this much money, and I'm over here making this much money, I should be in the same system. And in some kind of way you just put that together. And I'm paying into it. And that's what it is. When we say *two systems*, I'm confused.

MR. BEAVER: Let me give you an example. I think I understand your question, Senator.

If you took an employee working a 20-hour-a-week job in a municipality, for example, and they were earning a thousand dollars a week -- I'll just put numbers in here -- and they had another 20-hour-a-week job earning $500 a week-- They're going to contribute, in PERS, 5 percent of each of those salaries into the system -- into the PERS system. They have a multiple membership in PERS.

At the end of the day, those two salaries will be added together to derive the pension benefit. That would be the basis for their pension benefit. So, in that case, it would be the $1,500 a week, times 52 weeks a year, as the driver for their pension. They would not accrue more than one week of service for each week served, because it's obviously concurrent service in the same time frame. So it-- Basically, there is no economic loss in that case to the system, in any way.

You do have other cases though. And I'm going to give some data to the Committee that we're pulling together now. We have part of it ready today, but the second part we don't have. And that is those-- There are two cases: those who have multiple accounts, and those that are in multiple systems. So that's where you run into some potential problems.

And it's not typically your rank and file worker who has the opportunity to take advantage of those kinds of opportunities, although there are some. If you look at the total population -- if you look at the State workforce being somewhere around 80,000 or 90,000 people, and then the locals being somewhere over 200,000 -- 250,000-- You've got about 4,700 people who have multiple accounts. We know that today. About 3,985 have at least two work locations, 473 have three, down to the 13 people with eight work locations. So we will put this data before the Committee by tomorrow or early next week.

But there are other cases out there, I think, that are not the rank and file, that tend to get the media attention. But I would agree with you that the case I just described -- the 20-hour-a-week employee at one place, and 20-hour at another-- There is no economic loss to the system in that situation.

SENATOR RICE: Okay. Through the Chair, if I didn't want to be in the system as an employee, do I have to be in the system?

MR. BEAVER: Only if you are an elected, non-veteran. You must-- PERS is a condition of employment for a State employee. Participation in PERS is not-- The only people who can opt out are elected officials who are not veterans.

SENATOR RICE: So if I was an employee working for a school board as a bus driver, making almost no money, I'm in the system because I have to be; but I leave that job, and I go over here to wherever and I work some more, I'm compelled to be in that system, more or less. In other words, I don't have an option.

MR. BEAVER: The PERS requires-- If you've got a $1,500-a-year income in PERS, you're required to be enrolled. So that case you described, the bus driver, would be a PERS member.

SENATOR RICE: So if I had five jobs, I've got to be in the system.

MR. BEAVER: Yes.

SENATOR RICE: Okay.

I think the media needs to understand that, and the public needs to understand that. And we have to address that. But at least we need-- That's the whole idea of this exercise -- is to at least get clarity on what is and what is not, so we'll know what it is we are fixing. And I think if we look at a group, we're looking at it wrongly. I think if we look at the overall aggregate of those involved with these kinds of relationships, then we may see something more significant that needs to be addressed, that we can address. We may find -- that need to be addressed -- and, as the gentlemen said, we may not be able to address. It doesn't make us bad people.

Could you explain a little bit more the multiple account versus, I believe you said, multiple system? Exactly what are you talking about there?

MR. BEAVER: A multiple account could be someone who is a-- They're in the same system, they're in PERS. You have a tax assessor who works for eight different municipalities -- would have eight accounts in PERS. Municipal court judges-- I think there was a big article about those in the *Asbury Park Press* not too long ago, where they've got-- A municipal court judge might serve five, six, seven different towns or local municipalities. So they would have multiple accounts within PERS. And the salaries are aggregated, and they're cumulative. So the ultimate pension is derived off the total of all the salaries paid to that individual.

And the multiple system is, you have somebody in PERS who is also a teacher, for example. We have those. Or police and fire, who is an elected official. We have those. So they're in PERS and PFRS. There's a large number of combinations that can be achieved with multiple employment.

SENATOR RICE: Okay.

And let me just end on this. I need to make sure I understood correctly your interpretation. If I have a school bus driver or a maintenance person who is part-time, or at least 20 hours a week, in a system, who may leave that system and go to another job in the system-- They have to be in both systems. And if, in fact, they're paying into the system, there is no real significant savings, one way or the other, because they're in two systems, once you do the averaging out and the calculation formula. Is that correct?

MR. BEAVER: Well, the case you're describing-- You're in one system. That bus driver is going from one PERS job to another PERS job -- unless he becomes a teacher, or a uniform firefighter, or a uniform policeman -- you're just within PERS. And it's not-- The 20-hour week is not a requirement. It's just $1,500 a year. But that's all within one system.

SENATOR RICE: The $1,500 a year.

MR. BEAVER: Yes, sir.

SENATOR RICE: Okay. Can you-- And that's the number we're talking about. But that's where we were getting with the $5,000 versus -- why that number is so low. Because I've known people who opted not to have certain benefits, because they weren't really making any money.

And they were told they could not opt out of things. And so we need to look at that piece.

Let me back off here now for my colleagues. I may have another question or two. There's a couple of things on my mind.

MR. BEAVER: Thank you.

SENATOR SCUTARI: Senator Gormley, just one moment.

Just to follow up on that for clarity. Senator Rice, I believe, asked-- Say you have two health officers. They work in one city and another. And they're multiple account holders in the PERS system. Is that correct?

MR. BEAVER: Yes.

SENATOR SCUTARI: And would there have been any savings if, instead of a health officer working in two municipalities, we had two separate individuals doing -- one in the city of Lindenwold and one in the city of Hackensack -- versus having the same individual do both?

MR. BEAVER: No.

SENATOR SCUTARI: The system wouldn't be affected one way or the other if that person had two different--

MR. BEAVER: Well, the system-- In that case, you actually have to look at what they do. There actually could be a negative impact in that scenario.

SENATOR SCUTARI: On the system, by splitting that, and not allowing multiple--

MR. BEAVER: Yes.

SENATOR SCUTARI: --part-time holders.

MR. BEAVER: Right, because now you have two participants. And, ultimately, what happens at the end of their career-- You've got two part-timers that, at end of the career, could wind up as two full-timers. So there is any number of variations you could have on that theme.

SENATOR SCUTARI: So, I mean, when you talked about the press accounts of individuals who might be multiple municipal court judges, and they have their-- Their years are the same, but their pension amount is based upon the salaries combined amount.

MR. BEAVER: Yes, sir.

SENATOR SCUTARI: If you had individuals that were separated, and were municipal court judges in those separate entities, you might have a negative impact if we did not allow them to do that.

MR. BEAVER: Yes, sir.

SENATOR SCUTARI: Senator Gormley.

SENATOR GORMLEY: Thank you.

I'm curious, did you advise New Jersey Transit? They have set-- You did--

Did you work with New Jersey Transit, because they've set up a contributory plan -- a 401(k) or whatever? Did you work with them on that?

MR. BEAVER: No, we did not.

SENATOR GORMLEY: You didn't work with them.

MR. BEAVER: They do not-- They're separate from our operations.

SENATOR GORMLEY: Oh, I was just curious. Because what they've done is, they've obviously gone to the -- more of a private-sector type system.

MR. BEAVER: Yes.

SENATOR GORMLEY: And the Governor had been touting it as an example of what can be done.

Let's go over-- Let me follow up on Senator Rice's questions.

Now, you're able to track the people who are tacking in the State of New Jersey. Is that correct?

MR. BEAVER: Yes.

SENATOR GORMLEY: Okay. So you have 3,985 that are-- What's the total number-- Under the definition of what you call *tacking*, how many people in the State of New Jersey are tacking, today? Total.

MR. BEAVER: So these are the total number of people who have more than one source--

SENATOR GORMLEY: Total number of people tacking in the--

MR. BEAVER: --one source of income in PERS.

SENATOR GORMLEY: Either multiple in a system, or combining two systems.

MR. BEAVER: Well, that's what I wanted to be clear about. Because I have the multiples within systems, but I'm waiting for the other piece of data, which is the people across systems. So how many people do we have that have an account in PERS, teachers, and police and fire, for example-- I should have that data later today.

SENATOR GORMLEY: But let's go with what you have today, in terms of those people who are tacking in systems.

MR. BEAVER: Sure.

SENATOR GORMLEY: What's that number?

MR. BEAVER: In the teachers' system, we have 213 members who have more than one account.

SENATOR GORMLEY: Okay.

MR. BEAVER: And in public employees retirement system, we have 4,731 members who have anywhere from two to 11 accounts.

SENATOR GORMLEY: I have to meet 11 -- works 27 hours a day.

Keep going.

MR. BEAVER: That's--

SENATOR GORMLEY: So if you have those types of numbers, would you be able to break out, by region and location, where these numbers-- For example, there would be -- Atlantic County, there would be 10, 15, 20, 100. Are you able to break out by region? Are you able to do that?

MR. BEAVER: We can break them out by location numbers, which is kind of-- We'd have to do some work, but we certainly could come up with some close approximation.

SENATOR GORMLEY: Well, I think, given the fact that this is going to be a very thorough process-- I think the more local public information that's available will make the reforms easier.

In terms of disclosure, let's look at the-- Because you've seen these go over your desk. And I assume every once in a while your eyes pop out and -- "How did this person do this?" What are the highest numbers? What's the top one in the state? Who has done the most tacking? If you can't say the name, I think we'd all be curious to know the number. And can we get the runs on the 50 most egregious situations -- the highest number?

MR. BEAVER: I'm sure we could probably get the 50 highest. I'm not sure that I can answer the other part of the question, off-hand, because--

SENATOR GORMLEY: Well, I think-- Just from a curiosity point of view, I'd like to see -- and once you cross-reference the systems, I'd like to see what the 50 highest are. I think it would be interesting, especially because this is a key reform. This is one that's been talked about that, obviously, I feel that you support. And I think the more information we have on it, the better we would be.

So if you could get us that information, in terms of numbers and dollar amounts, I think it puts a face on a phrase that people might not understand -- what *tacking* might be.

Now, in terms of your concept of what legislation would be to fix it, are we talking about somebody would only be eligible-- Because, right now, we're mandating you be in the pension system. I think it puts a face on a phrase that people might not understand -- what tacking might be. Now, in terms of your concept of what legislation would be to fix it, are we talking about somebody would only be eligible-- Because, right now, we're mandating you be in pension systems. Would you amend the law so that a person could only be in one pension, and one job in the pension? Is that what you're advocating?

MR. BEAVER: I think there's a number of approaches that could be taken, and I think some legislation was actually introduced. I mean, there's at least one bill that -- I've seen it -- would require elected officials to just pick a job, and that's the job that would drive their pension. The other suggestion might be to just limit-- If you shifted, as we talked -- I mean, this gets a little complicated. If you shifted the basis for participation to something like hours, as I mentioned, that would take any number of these people out of the defined benefit system and put them into another system perhaps. So if the requirement was you had to spend 1,000 hours in every job, or some other criteria, that might preclude people from participation, which may be one approach. I mean, there's a variety of approaches that could be taken. I don't have any specific recommendation at this point. We could go back and work on something.

SENATOR GORMLEY: But, well-- Okay. Thank you.

In terms of the recommendation -- from 55 to 60, in terms of the retirement age -- which, as you said, is-- When we took it from 60 to 55-- Excuse me, I inverted it in terms of the retirement age. There will be a bill in front of the benefit commission on the 15th. Have you endorsed that legislation? Because, you are the Secretary, I believe, for the benefit--

MR. BEAVER: Well, we provide information to the commission, and then cost estimates. I have not looked at the bill carefully at this point, so I'd be reluctant to say anything today. I have the book sitting on my desk to go through all the stuff over the weekend.

SENATOR GORMLEY: Okay.

MR. BEAVER: I'm prepping for that next meeting.

SENATOR GORMLEY: Well, the bill is -- it seems to parallel--

MR. BEAVER: Right.

SENATOR GORMLEY: --the bill that's been advocated, and it's going to be up on September 15. So I was just curious about that.

MR. BEAVER: I'll be reading it over the weekend.

SENATOR GORMLEY: Okay.

Thank you.

In terms of those numbers-- Then you'll be able to break out -- so that we'll know all the situations of tacking -- region; and we'll be able to get dollar amounts so that, instead of dealing with a term, everybody will know exactly what's been going on and who's getting what?

MR. BEAVER: Yes, sir.

SENATOR GORMLEY: Thank you very much.

MR. BEAVER: Through the Chair.

SENATOR SCUTARI: That's fine.

SENATOR GORMLEY: That's fine.

SENATOR SCUTARI: Okay.

Senator Rice, you had something else?

SENATOR RICE: Yes.

Just going back, I'm really concerned about making sure -- I'm aware of being in the plan, being in more than one plan. Because I've thought about that for a number of years, and my concern is, is there are no opting-out provisions. And the question is, is that I don't believe that anyone in America should be denied the right to seek equal opportunity employment if, in fact, that's what they want to do, and they're qualified and there is an employer willing to hire them. But I also believe that if I was -- use me as an example -- to seek employment elsewhere, and I'm in the plan, and the other employment has the plan, I should be in a position to say, "I don't want that. I'm in the plan." Just like we're trying to bring the health-care benefits together and say, "Wait a minute. You've got Blue Cross Blue Shield, you've got it over here -- it's all the same, so why have you got it--" You know. But they say, it's okay. I just can't seem to get -- maybe I'm explaining it wrong, but I've been concerned. Because I've known people who have been in more than one plan and didn't want to be in more than one plan, for other economic reasons, because they're taking money from them up front, into the system, that they needed.

Is there anything, that you're aware of, that would prevent us from having opting out-- Because when I watch the media, I listen to my colleagues, I listen to others, I get confused. I don't think that they're being mean-spirited. I get confused because it's almost like someone saying, "Well, I don't believe you should work more than one job." Now, I'm not sure that's what we're saying. I think I hear people saying, from a government perspective and a taxpayer perspective, "What are we paying into the system for you to work, if you're working in more than one area?" And that's what I seem to hear. Because I'm going to be quite frank. I'm never going to not encourage minorities and women -- everybody -- but particularly minorities and women who can't seem to make enough in any venue in government and the private sector, with the biases -- not to work more than one job if they have to do that. But my concern would be, like you said, the cost to the taxpayers in terms of benefits; and I'm not going to ask people to work without benefits. I won't do that. Because I've seen too many young people grow older and retire and have nothing to live on. I've seen systems like Newark, where people were never told -- going back many years ago, after the Addonizio administration -- about pensions. They were never told, and they can't get anything right now because of noncontributory funding and all the other kinds of things that we can't correct anthing for about 10 people or so.

And so I just wanted to make sure that we are talking about benefits and how we, kind of, figure out how to make the benefits worthy, fair and equitable; and consolidate them in some way where there is a savings, if we can do that. And we're not talking about people having more than one job. Because attorneys have more than one job; doctors have more than one job; truck drivers, many of them have more than one job; plumbers have more than one; some of the media have more than one, they do freelance as well as work. The question is, what comes on with that -- I think we should be addressing. And I think that one way to look at this is to have at least some place in the fund -- with a clear understanding of what it means in the future of someone's life -- an opting-out provision of some of these things, rather than elimination. Because some areas of elimination, as you said, doesn't save -- hurt the system one way or the other. But we need to at least look at that.

Would you have any problem of any areas of opting out? Are there ways we can look at that?

MR. BEAVER: I think you have to be very careful in the approach that's taken. The risk you run is that people make a bad choice early on in a career and opt out of a system, and then later on have their regrets. And we've seen-- I'll give you an example of that. The alternate benefit program is a program in place for the teachers at the colleges, State colleges. Some years back, they had the opportunity to elect either: remain in PERS and have a defined benefit over time, or to shift the PERS accounts over to an ABP account, which is more like a 401(k)-type. It's a 5 percent employee contribution with an 8 percent employer match. At the time that they made the elections, the stock market was going great guns and everybody jumped into the ABP plan. Subsequently, when the market turned south, we had many, many appeals of people asking to get out of ABP and go back in the defined benefit plan. So I just would caution that you always have the risk of people making what -- maybe later, perceived as bad choices, and then you're looking to take corrective action.

The statutory requirement is out there today at $1,500. Do I think -- I don't think there's a huge, negative impact to the system if people have the opportunity not to go in. But I think you have to be very careful in how that's structured; and that, if it happens, it has to be an irrevocable decision. Because otherwise you have the adverse-risk selection where people opt in and opt out at will, when it serves their purposes and not necessarily the plan's.

SENATOR SCUTARI: Oh, okay.

Senator Gormley wants you to put together that list, and I have no problem with that. But I do want you to put together a memo -- because we touched on it just briefly, and I think it was Senator Rice's point -- which discusses the pluses versus the minuses, the cost and benefits to legislation that would eliminate dual employment in multiple account holders in the PERS system. Because, based upon your testimony -- from what you've told me, there is no-- If we eliminate that dual employment, but still mandate people's enrollment in PERS, there would give, obviously, endless other opportunities for other people to hold public employment.

But then there may be an additional cost to the system based upon allowing that. So I'd like you to give me a memo, very brief, just in terms of what the potential cost risk factors there are with legislation -- because we're going to probably discuss that for sure -- which would not allow dual employment, in terms of the tacking for the pension systems. Do you understand my thought?

MR. BEAVER: Yes, sir. Yes.

SENATOR SCUTARI: Because obviously, it's an area in which -- it can be discussed, and it's exciting for the press to write -- and I read it myself -- is that someone who holds multiple public sector jobs bases their pension on the aggregate of those salaries. But of course, if we disallow that, and multiple-sector jobs are held by multiple individuals, there might be a cost to the system based upon what you said. Maybe it's something that we need to do anyway, but I want to at least have the information with respect to the cost-benefit analysis on that. These are going to give us the top 50 individuals that hold multiple accounts, and what the aggregate of their salaries are -- based upon Senator Gormley's remarks.

MR. BEAVER: Yes, sir.

Just to be clear, I think when you see the list of the top 50, you're not going to see the rank-and-file, 20-hour-a-week worker.

SENATOR SCUTARI: Correct.

MR. BEAVER: That'd be clear.

SENATOR SCUTARI: You're going to have individuals who are tacking together multiple public-sector jobs, and what their bases are on that.

MR. BEAVER: And the real problem is not so much the tacking, in itself, it's-- The problem is that these are individuals who typically have the ability to secure that high-paying job in the last couple of years, or for one year for a veteran, and drive their pensions up dramatically.

SENATOR SCUTARI: I think you're talking about something else. You're talking about something else, and I think that it's fairly clear, at least to me, that we need to do some elimination with respect to boosting. We're talking about tacking, not boosting. Boosting, I think, from what you have indicated to me, is that someone who makes a smaller amount of money for -- over the length of their service career, and then at the end, because they haven't contributed at that level -- then gets a higher paying job in the last year or three, depending upon whether they're a veteran, and then the entire career is based upon that.

MR. BEAVER: And you'll see some combinations of both when you see the 50.

SENATOR SCUTARI: I think that you're not going to see that allowed any more at the end of this session, but that's my thought on it. But I think that's different than -- in terms of what I'm asking for, in terms of the cost-benefit analysis for individuals who are tacking, again. Because you probably have multiple tax collectors, multiple health officers, and they serve the municipalities in part-time capacities, based upon their licensing requirements, and that might be more of a cost to our system if we have to break that out, or maybe it's not. But I'd like to have your estimation on that.

MR. BEAVER: Certainly.

SENATOR SCUTARI: Chairwoman Pou.

ASSEMBLYWOMAN POU: Thank you, Senator.

Just a clarification, or maybe an added thought to what the Senator has just indicated. I know you're preparing that information that both Senator Gormley and the Co-Chair has indicated. Is that going to include the 50 highest salaries as well, or how are you going to make--

SENATOR GORMLEY: Just do everybody.

ASSEMBLYWOMAN POU: I know. I just want to make -- there's a reason why I'm asking that question.

MR. BEAVER: I think we probably have to take a couple different cuts of data, so we might give you more than you're actually asking for. Because it might be the 50 with the highest salaries in aggregate--

ASSEMBLYWOMAN POU: Good.

MR. BEAVER: --in all their jobs.

ASSEMBLYWOMAN POU: Fine.

MR. BEAVER: Then the 50 with the biggest jobs, whatever.

ASSEMBLYWOMAN POU: Okay.

MR. BEAVER: We'll probably have to give you a couple different cuts of data, though.

ASSEMBLYWOMAN POU: Very good. Right.

Thank you.

Mr. Beaver, first, let me ask you, how many employees purchase service credit each year?

MR. BEAVER: We have about -- well, right now, our backlog is probably close to 100,000 purchase requests.

ASSEMBLYWOMAN POU: And what would be the approximate total value of that credit?

MR. BEAVER: I'd have to get -- the cost of those purchases or the value of the credit?

ASSEMBLYWOMAN POU: The value of the credit.

MR. BEAVER: I'm not sure I can get that answer. I can get you the cost, which means the value is somewhat greater, but--

ASSEMBLYWOMAN POU: Well, explain that to me, please?

MR. BEAVER: Well, the cost of the credit is -- because you're buying it at the highest salary that you had during the course of your career-- You can buy three years of service. I've just dealt with a case, so I'll give you one minor example. The volunteer fireman -- a gentleman is going to buy three years of service. It is going to cost him about $21,000. What it ultimately delivers, when he qualifies for a pension three years earlier than he would have, and it gets him under the age 65 mandatory retirement for a fireman, is going to be thousands of dollars. So the value is going to be very high for him. He would not have otherwise qualified for a 25-year pension with health benefits. So I'd like to just go back and see what kind of data we can draw for that. I'm not sure I've got exactly what you're asking for, but I'd like the chance to look at it.

ASSEMBLYWOMAN POU: Very well.

Thank you.

Do we charge for health insurance when we're doing the service credits?

MR. BEAVER: No.

ASSEMBLYWOMAN POU: If we were, what would be the value or -- to the State, in fact, what would be the actual amount of money that we would receive?

MR. BEAVER: I'd have to get that number for you as well, because we'd have to look at the cases. It depends on the individual's age at retirement. If I presume they're already retired at age 55 with 25 years of service, or they qualify for health benefits by reason of that purchase, I can then look at what the life expectancy is and the cost of those benefits over time, and bring it back to a present value. It will be fairly expensive.

ASSEMBLYWOMAN POU: I would imagine so.

MR. BEAVER: Yes.

ASSEMBLYWOMAN POU: But not knowing what that is, I--

MR. BEAVER: I'd like the chance to work the numbers up for you.

ASSEMBLYWOMAN POU: Very well.

Thank you so very much.

SENATOR SCUTARI: I'm sorry.

Assemblyman Giblin, do you have some follow-up?

ASSEMBLYMAN GIBLIN: Right now, if somebody is a school teacher and has a job as a corrections officer, they're two different pension systems, correct?

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: They can be in both systems?

MR. BEAVER: Yes.

ASSEMBLYMAN GIBLIN: And even somebody who is a legislative aide -- it might be a school teacher making 1,500 -- could be in both systems, correct?

MR. BEAVER: Yes.

ASSEMBLYMAN GIBLIN: Okay.

This issue of tacking -- and I'm only just looking at articles I've read over a period of time. I noticed some municipalities might have an intergovernmental relationship, within their municipalities, say, dealing with the issue of health officer. Some towns may take the idea that, "Well, I'm a health officer in Hillside. I'm a health officer in Elizabeth. I get two separate checks." I've noticed some municipalities say that, "I'm going to reimburse Elizabeth." And in fact, they would be able to get around this issue of tacking, because you wouldn't know, hypothetically, that they're doing work in Hillside. Do you get the point, what I'm saying?

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: In other words-- I know some municipalities take this approach now. There's only one check cut, so to speak, but they get reimbursements from the various municipalities as far as time is concerned. So I just want to make sure; though that's an issue.

The other issue, too -- with age of retirees. I'd be curious-- Over the last couple of years -- I know people talked about the 55 to 60 -- but I find, in the private sector, one of the biggest deterrents to folks retiring is this whole issue of health insurance coverage. Ten years ago, people were retiring early. But now with the cost of health care, they can't afford to retire. So I'd like to see that 55 to 60, over the last couple of years, how many folks actually did retire -- you know, 56, 57, 58, 59 -- and how many of those same folks have the 25-year provision. Because I think that's about the only people that can take advantage of something like that, because the dramatic cost of health care precludes people from taking a pension check. Okay?

Thank you.

SENATOR SCUTARI: Third bite, Senator? Okay.

SENATOR RICE: Yes.

Just to the Chair. Does the issue of longevity play any role in this at all, in terms of our discussion? I haven't heard that word yet. The benefits in longevity, do you have any issues or concerns you want to address about longevity in this whole scenario?

MR. BEAVER: Well, longevity plays a consideration in the pension systems, in some of the systems, especially police and fire. I think part of-- If you just looked-- And I can get you more data on this. I think there's an underlying problem with all the systems in defining what is pensionable compensation -- in terms of base pay, versus longevity pay, versus other things. There's a lot of stuff that goes on with changing terms of contracts over time, to get stuff into the pension system, to get stuff out of--

For example, a uniform allowances is in police and fire. In the last couple of years there's been a big move afoot -- or since 1999 -- to shift the dollars that were normally associated with uniform allowances into base pay. So to the extent that we can find it -- we see it where there's a direct reference in the old contract to say, "In lieu of uniform allowance, you'll get $500 a year in base, or a $1,000 a year in base," whatever -- we can disallow that. But there's more and more moves afoot to shift other forms of compensation in the base. And I think the Committee -- and I can get you more data on this -- might want to consider what is really pensionable compensation. What is the right level of compensation to be delivered in retirement? That's an underlying problem that you have to deal with.

SENATOR RICE: So, through the Chair, if you pursued some of the conversations that Assemblyman Giblin was having, as it relates to 55 versus 60, then there's some possibilities that longevity at 55 and pension could be a savings, primarily because we have new people coming into the system that don't have the longevity for a period of years, or vice versa. Is that correct?

MR. BEAVER: Except that -- remembering the system deals with both local and active and State employers, and the local employers have probably more risk of longevity than the State does. The State really doesn't deal with the longevity issue.

SENATOR RICE: Okay. Well, if we're trying to save dollars at one level, it's still one state. Is that correct?

MR. BEAVER: Yes.

SENATOR RICE: Okay. And then we have to finance, from the State, back locally in certain categories. Is that correct?

MR. BEAVER: Primarily.

SENATOR RICE: And I'm not just talking pension. I'm talking government, now.

MR. BEAVER: Right.

SENATOR RICE: And the taxpayers want savings. Is that correct?

MR. BEAVER: Yes, sir.

SENATOR RICE: Okay, I just want to be sure. Then the State is 566 municipalities, so if we're going to talk benefits -- we understand home rule, I come from home rule, I believe in it -- but we need to be talking about the total costs across the board. Because it doesn't give us a savings if, in fact, we save here, but we just hang it up locally; or they save locally, and we raise it up here. That's not a win for anybody. That's smoke and mirrors.

Thank you.

SENATOR SCUTARI: Chairwoman Pou.

ASSEMBLYWOMAN POU: Thank you.

Mr. Beaver, could you help to explain -- I know in your presentation you've made reference to the very different funded ratios in every one of those pension plans. Could you just explain: Why is there such a discrepancy?

MR. BEAVER: In the funding ratios?

ASSEMBLYWOMAN POU: Yes. With the different pension plans.

MR. BEAVER: If you look back to '97 -- you looked at what their asset bases were at that point in time, and you looked at what's happening in improvement of benefits over different periods of time, and the amount of employer contributions coming in over time, that will describe the deficiencies. Remember, on the PERS State, for example, not only did we stop making cash contributions to the fund, we also lowered the employee contributions. On the teachers fund, we lowered the employee contributions at the same time we lowered the State contributions. So I think it's really, what was the starting point? PERS local had a higher surplus than PERS State when we stopped making contributions. So to the extent that they have a little more money in the system over time, it -- just variations over time. That's all it is. It's only a couple of percentage points difference, actually.

ASSEMBLYWOMAN POU: No, I-- Okay.

MR. BEAVER: In aggregate it was 82.3; PERS was 79. So it's within two, three, four points. But it's just a difference of how the moneys were flowing in, and amounts, and the fact that we returned contributions in some funds at different points in time. So police and fire local, for example, is at 80 percent this year. The PERS local is 60 percent. So the amounts of dollars flowing into the funds are different as well.

ASSEMBLYWOMAN POU: Could you explain the major overhaul that you talked about in terms of the pension regulation -- in your last slide, I believe it was? You made -- given the fact that we have-- Well, let me go back. Given the fact that we heard from OLS yesterday, and the legal opinion, and -- the fact that we're not able to make any real major changes to anyone with five years or more, how do you believe -- or what do you think we need to do to simplify the pension system?

MR. BEAVER: I don't think the-- The recommendations I was suggesting I don't think result in any detrimental impact on the individuals. I think it's about getting into some things of commonality about how a purchase works, what a purchase looks like, who's eligible for a purchase, what time is eligible for a purchase? There's probably about 40 different times that are eligible for purchase now. If you are a special police officer working weekends down in a shore town, and then become a regular police officer hired in that same town, you can, in some cases, buy that time. If you get hired in the town next door, you cannot buy that time. So they are the kinds of things that I'm talking about, in simplifying, that I think would make it easier for both the members and the administration, and in the management of the plan.

And we could develop a list of those. But they're the kind of rules that are out there that are somewhat problematic. Over time, they just get worse and worse. And it tends to lead to more bills to solve the problems.

ASSEMBLYWOMAN POU: Perhaps it might be a good idea, then, if you could just take a look at that and provide us with a list of what you think might help to simplify it -- all of those particular areas.

MR. BEAVER: We'd be happy to do that.

ASSEMBLYWOMAN POU: Thank you.

SENATOR SCUTARI: Okay.

Director, thank you and your staff for your detailed analysis and all the hard work that you put in for these last couple of meetings.

Members of the public and members of the Committee, going forward: Next week we'll be talking about alternative benefit systems. And we're going to also attempt to try and start touching upon health-care benefits at, maybe, the latter part of the meeting, or a secondary meeting next week, if the staff can be up to speed on that.

I want to thank all the members of the Committee for all their comments. I think that we have real good dialogue here, a lot more information than we had in the past, and that we can come to some agreement on some changes.

So with that, I'll adjourn the meeting.

Thank you.

(MEETING CONCLUDED)