

JOINT PUBLIC HEARING

before

SENATE REVENUE, FINANCE AND APPROPRIATIONS COMMITTEE

AND

SENATE STATE GOVERNMENT AND FEDERAL AND
INTERSTATE RELATIONS COMMITTEE

SENATE BILL No. 3358

(Provides additional retirement benefits for certain
members of certain State-administered retirement systems
who retire between April 1, 1991 and July 1, 1991)

March 27, 1991
State House Annex
Room 424
Trenton, New Jersey

MEMBERS OF SENATE REVENUE, FINANCE AND
APPROPRIATIONS COMMITTEE PRESENT:

Senator Laurence S. Weiss, Chairman
Senator Gerald R. Stockman, Vice-Chairman
Senator Walter Rand
Senator Ronald L. Rice
Senator Robert E. Littell
Senator Robert Menendez
Senator Henry P. McNamara

MEMBERS OF SENATE STATE GOVERNMENT AND FEDERAL AND
INTERSTATE RELATIONS COMMITTEE PRESENT:

Senator Wynona M. Lipman, Chairman
Senator Francis J. McManimon, Vice-Chairman
Senator C. William Haines

ALSO PRESENT:

David J. Rosen
Office of Legislative Services
Aide, Senate Revenue, Finance and
Appropriations Committee

Joseph P. Capalbo
Office of Legislative Services
Aide, Senate State Government and Federal and
Interstate Relations Committee

New Jersey State Library

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Hearing Recorded and Transcribed by
Office of Legislative Services
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Hearing Unit
State House Annex
CN 068
Trenton, New Jersey 08625

J O I N T P U B L I C H E A R I N G

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LAURENCE S. WEISS
CHAIRMAN
GERALD R. STOCKMAN
VICE-CHAIRMAN
SYNONA M. LIPMAN
ROBERT MENENDEZ
WALTER RAND
RONALD L. RICE
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New Jersey State Legislature
SENATE REVENUE, FINANCE
AND APPROPRIATIONS COMMITTEE
STATE HOUSE ANNEX, CN 068
TRENTON, NEW JERSEY 08625-0068
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NOTICE OF JOINT PUBLIC HEARING

The Senate Revenue, Finance and Appropriations Committee and the Senate State Government and Federal and Interstate Relations Committee will hold a joint public hearing on the following legislation:

S-3358 Provides additional retirement benefits for certain
McManimon members of certain State-administered retirement
systems who retire between April 1, 1991 and
July 1, 1991.

In addition, the Committees will consider various bills that permit members of pension systems to purchase credit for prior service.

The hearing will be held on Wednesday, March 27, 1991 at 2:00 p.m. in Room 424, State House Annex, Trenton.

The public may address comments and questions to David J. Rosen, Senate Revenue, Finance and Appropriations Committee Aide and persons wishing to testify should contact Sharon Birch, secretary, at (609) 984-6798. Those persons presenting written testimony should provide 10 copies to the committee on the day of the hearing.

Issued 3/19/91

STATE OF NEW JERSEY

INTRODUCED MARCH 14, 1991

By Senators McMANIMON and STOCKMAN

1 AN ACT concerning retirement benefits for some members of
2 certain State-administered retirement systems.

3
4 BE IT ENACTED by the Senate and General Assembly of the
5 State of New Jersey:

6 1. A State employee who:

7 a. is 50 or more years of age and has 25 or more years of
8 service credit under the Public Employees' Retirement System
9 (PERS) or the Teachers' Pension and Annuity Fund (TPAF), or
10 service with public employers in this State participating in the
11 Alternate Benefit Program (ABP) for which contributions were
12 made by the employee under the program before the effective
13 date of retirement;

14 b. files an application to retire on or before June 1, 1991; and

15 c. retires under the retirement system on or after April 1,
16 1991, but not later than July 1, 1991, other than a veteran who
17 retires on a special veteran's retirement, shall receive an
18 additional five years of service credit under PERS or TPAF, or an
19 amount equal to 100% of the employee's base annual salary from
20 the employer at the time of retirement for members of ABP. An
21 employee who meets the age and service credit requirements and
22 retires on a special veteran's retirement under PERS or TPAF
23 shall receive an additional pension under the retirement system
24 in the amount of 5/60 of final year compensation. A full-time
25 employee of the Rutgers University Cooperative Extension
26 Service who meets the age and service requirements based upon
27 service credited in the federal Civil Service Retirement System
28 or the Federal Employees Retirement System earned as a result
29 of full-time employment at Rutgers University alone, or in
30 combination with service credit under PERS or qualifying service
31 under ABP, and is eligible to retire under the federal Civil
32 Service Retirement System or the Federal Employees Retirement
33 System within the time period set forth in subsection c., shall
34 receive the benefits provided by this section. If the employee is
35 a member of the federal Civil Service Retirement System or the
36 Federal Employees Retirement System, the employee shall
37 receive an amount equal to 100% of the employee's base annual
38 salary from the employer at the time of retirement.

39 2. For a State employee who:

40 a. is 60 or more years of age and has 20 or more years of
41 service credit under the Public Employees' Retirement System

1 (PERS) or the Teachers' Pension and Annuity Fund (TPAF), or
2 service with public employers in this State participating in the
3 Alternate Benefit Program (ABP) for which contributions were
4 made by the employee under the program before the effective
5 date of retirement;

6 b. files an application to retire on or before June 1, 1991; and

7 c. retires under the retirement system on or after April 1,
8 1991, but not later than July 1, 1991, the retirement system for
9 PERS or TPAF members, or the State for ABP members shall pay
10 the premium or periodic charges for benefits provided to the
11 retired State employee and the employee's dependents, but not
12 including survivors, under the "New Jersey State Health Benefits
13 Program Act." P.L.1961, c.49 (C.52:14-17.25 et seq.), in the same
14 manner provided for State payment of premiums or periodic
15 charges for retired State employees under subsection c. of
16 section 8 of that act (C.52:14-17.32). A full-time employee of
17 the Rutgers University Cooperative Extension Service who meets
18 the age and service requirements based upon service credited in
19 the federal Civil Service Retirement System or the Federal
20 Employees Retirement System earned as a result of full-time
21 employment at Rutgers University alone, or in combination with
22 service credit under PERS or qualifying service under ABP, and is
23 eligible to retire under the federal Civil Service Retirement
24 System or the Federal Employees Retirement System within the
25 time period set forth in subsection c., shall receive the benefits
26 provided by this section. The State shall pay the premium or
27 periodic charges for the benefits if the employee is a member of
28 the federal Civil Service Retirement System or the Federal
29 Employees Retirement System.

30 3. The actuaries for PERS and TPAF shall determine the
31 liabilities of the retirement systems for the additional service
32 credit or pensions and health benefits payments provided under
33 this act and for the early retirement of employees in accordance
34 with the tables of actuarial assumptions adopted by the boards of
35 trustees of the retirement systems. These liabilities shall be
36 added to the unfunded accrued liabilities of the State under the
37 retirement systems and shall be paid in the same manner and over
38 the remaining time periods provided for the State's unfunded
39 accrued liability under section 24 of P.L.1954, c.84 (C.43:15A-24)
40 and N.J.S.18A:66-18, respectively. The State shall pay the cost
41 of the actuarial work to determine the additional liabilities of the
42 retirement systems for the benefits under this act.

43 4. The cost of the cash payments for members of ABP, the
44 federal Civil Service Retirement System and the Federal
45 Employees Retirement System under this act shall be funded by
46 the employer from annual appropriations to the employer in the
47 State Budget or from funds otherwise available for payment of
48 operating expenditures.

49 5. A State employee who receives a benefit under this act

1 shall forfeit all tenure rights, and all rights and protections
2 provided the employee under Title 11A, Civil Service, of the New
3 Jersey Statutes, with respect to the employment terminated by
4 retirement to qualify for the benefit.

5 6. Where the needs of a State department or a State college or
6 university require the services of an employee who elects to
7 retire and receive a benefit under this act, the State department,
8 with the approval of the State Treasurer, or the State college or
9 university, with the approval of the State Board of Higher
10 Education, may delay the effective retirement date of the
11 employee until the first day of any calendar month after July 1,
12 1991, but not later than July 1, 1992. The effective retirement
13 date of an employee of the Legislative or Judicial Branch of
14 State government who elects to retire and receive a benefit
15 under this act may be similarly delayed with the approval of the
16 Senate President in the case of an employee of the Senate, the
17 Speaker of the General Assembly in the case of an employee of
18 the General Assembly, the Legislative Services Commission in
19 the case of an employee of the Office of Legislative Services,
20 and the Chief Justice of the Supreme Court in the case of an
21 employee of the Judicial Branch. A delay in the effective
22 retirement date of an employee shall not extend the dates set
23 forth in sections 1 and 2 to qualify for benefits under this act.

24 7. A State employee retiring under PERS or TPAF on or after
25 April 1, 1991, but not later than July 1, 1991, who has not repaid
26 the full amount of a loan from the retirement system made
27 before April 1, 1991 by the effective date of retirement, may
28 repay the loan through deductions from the member's retirement
29 benefit payments in the same monthly amount which was
30 deducted from the member's compensation immediately
31 preceding retirement until the balance of the amount borrowed
32 together with interest at the statutory rate is repaid. If the
33 retiree dies before the outstanding balance of the loan and
34 interest is repaid, the remaining amount shall be repaid as
35 provided in section 2 of P.L.1981, c.55 (C.43:15A-34.1) or section
36 2 of P.L.1981, c.212 (C.18A:66-35.1), as appropriate.

37 8. For the purposes of this act:

38 a. "State employee" means a full-time employee, eligible to
39 participate in the New Jersey State Health Benefits Program, of
40 a State department, or Rutgers, The State University, the New
41 Jersey Institute of Technology, the University of Medicine and
42 Dentistry of New Jersey, or a State college. It does not include
43 an employee of an authority, board, commission, corporation, or
44 other agency or instrumentality, other than Rutgers, The State
45 University, authorized to participate in PERS under section 73 of
46 P.L.1954, c.84 (C.43:15A-73) or P.L.1990, c.25 (C.43:15A-73.2 et
47 seq.), or a public agency or organization as defined in section 71
48 of P.L.1954, c.84 (C.43:15A-71).

49 b. "Final year compensation" means the compensation received

1 in the last 12 months immediately preceding retirement in which
2 compensation is received and upon which contributions are made
3 by the employee to the retirement system.

4 9. This act shall take effect immediately.
5
6

7 STATEMENT
8

9 This act provides for additional benefits for certain State
10 employees who retire under the Public Employees' Retirement
11 System (PERS), the Teachers' Pension and Annuity Fund (TPAF),
12 or the Alternate Benefit Program (ABP) between April 1, 1991
13 and July 1, 1991. Employees who are 50 or more years of age and
14 have 25 or more years of service credit under PERS or TPAF as
15 of the effective date of retirement will receive an additional five
16 years of service credit. Employees who meet the age and service
17 credit requirements and retire on special veteran's retirement
18 under PERS and TPAF will receive an additional pension in the
19 amount of 5/60 of their final-year compensation. Members of
20 ABP who are 50 or more years of age and have 25 or more years
21 of service with public employers in this State participating in the
22 program for which contributions were made by the employee to
23 the program will receive an amount equal to one year of salary,
24 based upon their base salary, at the time of retirement.
25 Employees who are 60 or more years of age and have 20 or more
26 years of service as of the effective date of retirement will
27 receive payment of premiums for retired coverage under the
28 State Health Benefits Program for themselves and their
29 dependents, but not including survivors. A full-time employee of
30 the Rutgers University Cooperative Extension Service may use
31 service credited in the federal Civil Service Retirement System
32 or the Federal Employees Retirement System earned as a result
33 of full-time employment with Rutgers University alone, or in
34 combination with service credit under PERS or qualifying service
35 under ABP, to qualify for benefits under the act. The employee
36 must be eligible to retire under the federal Civil Service
37 Retirement System or the Federal Employees Retirement System
38 within the time period specified in the act.

39 A State employee retiring under PERS or TPAF between April
40 1, 1991 and July 1, 1991 who has an outstanding loan which was
41 made prior to April 1, 1991 would have the option of repaying the
42 balance plus interest by deductions from retirement benefit
43 payments in the same monthly amount that was deducted from
44 the employee's compensation preceding retirement.

45 The cost of the benefits for PERS and TPAF members will be
46 funded through increased State contributions to the retirement
47 systems. The cost of the cash payments for ABP members will be
48 paid by their employers out of their operating budgets. The cost
49 of the health benefits payments for ABP members

1 shall be paid by the State. For employees of Rutgers University
2 who retire from the federal Civil Service Retirement System or
3 the Federal Employees Retirement System, Rutgers will pay the
4 cost of the cash payments from its operating budget and the
5 State will pay the cost for the health benefits payments.

6 Where the needs of a State department or a State college or
7 university require the services of an employee who elects to
8 receive a benefit under the act, the department, with the
9 approval of the State Treasurer, or the college or university, with
10 the approval of the State Board of Higher Education, may delay
11 the effective retirement date of the employee for up to one year,
12 but not later than July 1, 1992. The effective retirement dates
13 for employees of the Legislative and Judicial Branches may be
14 similarly delayed with the approval of the appropriate authorities
15 in those branches. The authorization for delays in effective
16 retirement dates does not extend the dates for qualification for
17 benefits under the act.

18 Eligibility for benefits under this act is limited to employees of
19 State departments and the State colleges and universities.
20 Authorization to offer early retirement benefits for counties,
21 municipalities, public agencies or organizations, and State
22 autonomous authorities may be addressed in separate legislation.

23 Five years of service credit would increase retirement benefits
24 in the amount of 8.33% of final average salary, or \$833 for every
25 \$10,000 of final average salary. The employees eligible for the
26 benefit would have on average 30 years of service credit and a
27 final average salary of approximately \$40,000. Their retirement
28 benefits would be increased on average from \$20,000 to \$23,333,
29 which represents a 16% increase. The present value of this
30 lifetime benefit is approximately equal to one year of salary.
31 The annual premium for employee and spouse coverage under the
32 State Health Benefits Program for the next fiscal year will be
33 \$4,700.

34 The employees eligible for the benefits under this act are all
35 eligible to retire under their respective retirement systems.
36 Hopefully these additional benefits will induce a large number of
37 them to retire and thus assist in reducing the workforce in State
38 government and at the State colleges and universities in this time
39 of fiscal crisis.

40 41 42 PUBLIC EMPLOYEE BENEFITS

43
44 Provides additional retirement benefits for certain members of
45 certain State-administered retirement systems who retire
46 between April 1, 1991 and July 1, 1991.

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* * * * *

hw: 1-50
tca: 51-106

SENATOR LAURENCE S. WEISS (Co-Chairman): Good afternoon. This afternoon we are going to deviate from our regular schedule and work in coordination with the Senate State Government Committee, the Chairman of which is Senator Lipman, who is on my left. We will continue with the pension hearings until sometime later this afternoon, hopefully not too late.

However, we would like to continue now by welcoming members of the State Government Committee, Senator Haines on my right and Senator McManimon on my left. I think they are the two new ones here today, but I may as well go down the list and introduce right from the beginning. Senator Littell, Senator Haines, Senator Rand, Senator Lipman, Senator McManimon, Senator Rice, and Senator Menendez.

We will all participate in this afternoon's hearing. The first one on for this afternoon will be my Co-Chair for this meeting, Senator Lipman.

Senator Lipman, the floor is yours.

SENATOR WYNONA M. LIPMAN (Co-Chairman): Thank you. Thank you very much, Senator Weiss.

I think that Senator Weiss forgot to tell you that he is also a member of the State Government Committee. That means that we do double duty here.

I'm just going to try to explain a little of what Senate Bill No. 3358 is about. We are here to take testimony on this bill which was introduced by Senator McManimon. It provides additional retirement benefits for certain members of the various State administered retirement systems, who retire between April 1, 1991 and July 1, 1991.

It should be noted that it is not a real early retirement bill, per se. Persons eligible to retire under the provisions of this bill are already eligible to retire under the existing law. The purpose of this bill is to provide financial incentives to those persons to retire by July 1, 1991.

It should also be noted that this bill applies only to State employees, and not to local government, county government, or school district employees.

This bill provides additional benefits for specified State employees who retire under the Public Employees Retirement System -- PERS -- the Teachers Pension and Annuity Fund -- TPAF -- or the Alternate Benefit Program -- ABP -- between April 1 and July 1.

It provides that:

1) Eligible employees in PERS or TPAF, who are 50 or more years of age and have 25 or more years of service credit as of the effective date of retirement, will receive an additional five years of service credit.

2) Eligible employees in PERS or TPAF, who retire under the provisions of the veterans' retirement, will receive an additional pension in the amount of 5/60ths of their final year's compensation.

3) Eligible members of ABP who are 50 years or more of age and have 25 years service in this State, will receive an amount equal to one year of salary, based on their base salary at the time of retirement.

4) Eligible employees who are 60 or more years of age, and have 20 or more years of service as of the effective date of retirement, will receive State-paid health benefits.

May I just say in conclusion, I am so happy to see that so many people have come to participate in this hearing, and we expect you to enlighten us on your problems, your happiness, and your difficulties.

SENATOR WEISS: Thank you, Senator Lipman. They are all potential retirees, eventually.

The next one on the program is Senator McManimon.

Senator?

SENATOR McMANIMON: Thank you, Mr. Chairman.

I am honored here today, to be the sponsor of this legislation. Senator Stockman happens to be the cosponsor. We are very pleased to be able to offer the hard working, long-time employees of the State of New Jersey additional retirement benefits, while at the same time saving the State money.

This legislation will provide additional retirement benefits to State employees who are currently eligible to retire. These additional benefits, particularly the extension of health benefits to those between 20 to 25 years of service, will make the difference to those long-time employees who would like to retire, but have been hanging on waiting for a little more money in their retirement checks and protection from expensive health care costs.

In these tough economic times, this is a more humane way to deal with the downsizing of State government than the layoffs of public employees. This plan will save the State money, and lessen the number of layoffs which will have to be made.

I would like to commend the employees who will benefit from this program for their long service to the people of this State, and I would like to commend this administration for originally proposing this plan as a logical and cost-effective way of making the cuts which must be made.

Thank you, Mr. Chairman.

SENATOR WEISS: Thank you very much, Senator McManimon. We'll get back to you as the sponsor in a few minutes. I have next on the program, the State Treasurer, Mr. Berman.

TREASURER DOUGLAS C. BERMAN: Thank you very much, Senator. I apologize. I am going to have a brief opening remark, and then I have to leave for some other meetings. We are leaving here, however, to explain and answer all of your questions, the Director of the Division of

Pensions, Margaret McMahon. All of you know the Director of the Office of Management and Budget, Rich Keevey. And sliding into his chair is Ron Maxson, who is one of the Assistant Treasurers, and who has worked extensively on this proposal.

I guess I would like to just reiterate what the sponsor of the legislation, Senator McManimon, suggested. The State is confronted, very clearly, with a need to downsize its work force. That has posed for us the question: How is the most equitable and most fair and the most rational way to tackle that challenge? Because we do need to reduce the size of the work force.

We believe that this targeted, early retirement program is an important part and a humane part of how to tackle that challenge.

There are some additional costs associated with this in our future increased pension obligations. But we believe that balancing those small costs against the savings we can achieve through the reductions through the early retirement program are a sensible balance, if posed against the alternative, which is additional layoffs. That, really, in many instances, is our choice here.

We think that on balance, it is an appropriate choice to reduce the work force without layoffs, because there are real costs associated with however we tackle this challenge, and we have to be sensitive to balancing those costs.

The last is, and I always-- It's my job to always keep coming back to the bottom line. I urge on you, there is some time pressure on moving this legislation forward. The budget contemplates that we will have the savings in hand starting the first of the year, so that everyone who is eligible to retire under this proposal will have retired by, at the latest, July 1.

We are already up against a deadline which is making that somewhat problematic, whether we can get it all done or

whether or not we have to extend that one more month. But we need the savings. If this is going to be part of our overall budget plan for the year-- I urge you to consider as quickly as possible, all of the complicated questions that I am sure this legislation poses for you.

Thank you, Mr. Chairman.

SENATOR WEISS: Thank you very much, Mr. Berman.

Ms. McMahon, do you have a statement that you would like to make at this point?

M A R G A R E T M. M c M A H O N: I think a number of statements have been made, so I won't repeat them.

SENATOR WEISS: Yes.

MS. McMAHON: I would ask, have all of you gotten the handout that we passed out?

SENATOR WEISS: I believe so. Does the Committee have the handouts? Does everyone have it? (affirmative responses)

MS. McMAHON: Okay. As a summary of the early retirement plan, and maybe using that document as a kickoff, I can go through some of the features of the plan; that is, the targeted population. When we targeted our population, we realized that at first we--

SENATOR WEISS: Would you be kind enough to use that microphone? It is very difficult to hear you up here. The acoustics in this room aren't the best.

MS. McMAHON: (witness complies) When we originally looked at doing an early retirement program, we looked at the Public Employees Retirement System. We then quickly realized that there were a number of other retirement systems with memberships that included State employees. So, our targeted population is State employees, but there are members in PERS, there are a few members in TPAF, there is the Alternate Benefit Program at colleges and universities, and then there is a handful of people in the Federal Retirement System.

The eligibility criteria, I think, already has been talked about, and I think there may be some question as to how we targeted this group. Number one, we looked at other early retirement plans in other states. We looked in the private sector, and we consulted with our actuary. One of the things we realized right away was, we had a very large group of people who are eligible for retirement, right now. So we decided to target that group. We tried to come up with a benefit that would enhance their benefits, and be attractive enough for them to consider retirement.

It is not an enormously rich plan. There certainly are richer plans in the marketplace, the ones that have been tried. Some of the richer plans are more costly. We felt that the plan that we have come up with makes enormously good sense because these people, in fact, already are able to retire, and we feel that the cost is modest.

Turning to the next page that talks about the schedule for implementation: The Treasurer just mentioned that we are up against some deadlines. In the original proposal I had suggested if the legislation was passed in February, we could implement in July. And then I thought, maybe we could still do July if it was passed in March, but that would be pushing it.

Certainly, I don't think that this legislation is going to get passed this month. If it is passed in April, the date will have to be moved to August, which would mean that some people would retire in August. July, May, June, and even April, perhaps, would still be suitable early retirement dates.

So, for those people who are, in fact, ready to go-- And as you no doubt know, there are many people who would have retired in the last six months, except word is out that there is an early retirement program coming. So there are some people who are ready to go. I believe they would retire before August 1, but we still need to extend that date. By extending the date to August 1, we will pick up another 80 people who will be eligible, too.

The original numbers we talked about were 4000 people. When we took a closer look at the numbers, there are really 4400 people in PERS who are eligible. The other numbers are smaller, so when I discuss this I will be talking more about PERS.

When we developed the cost -- and there is a note at the bottom of the page -- some of the PERS employees and some of the TPAF employees are employed at the State colleges and universities. When we developed our cost savings -- on the next page -- these people, these employees, are not captured in the cost savings. It is only the State employees on the State payroll that are captured.

When we talk about the total annual cost: The total annual cost for PERS is 9.1 million, which is going to be spread out over a 27-year period. This is consistent with our present actuarial funding system. A question came up earlier: The 9.1 million equates to 160 million as far as present value, if we were to pay for this up front. That's what it would cost.

I think I would throw it open to your questions. I'm sure there are some, at this point.

SENATOR WEISS: Do you have any questions, Senator McManimon?

SENATOR McMANIMON: Yes. My concern here is, how was the particular window for early retirement decided upon? How was that specifically decided upon?

MS. McMAHON: When you say, "The specific window," Senator, are you talking about--

SENATOR McMANIMON: Yes, whether it be category number one, category number two, how did you specifically decide that?

MS. McMAHON: Okay. How do we specifically decide that? First of all, the extra five years of service is probably the most popular early retirement incentive in State and private sector plans for people who are already eligible to

retire. So, when we looked at the group of people who have 25 years service, we thought that a five-year enhancement to the program would be a large enough incentive to have people retire, who might otherwise wait.

Now, keep in mind that people who have 25 years of service already are entitled to free health benefits in retirement. They already have earned that entitlement. When we looked at our age-60 population -- and I certainly know this from my many years of dealing with state employee retirement systems -- there are many people at age 60 who have 20 plus years of service, but not 25; basically, they are waiting around to hit the 25-year mark. So, when we looked at this group, we felt that allowing people with 20 years of service but not 25 to have free health benefits when they retire, would be an incentive, and if I am to judge by the hundreds of telephone calls our hot line is getting, I think we have guessed right.

SENATOR McMANIMON: The reason why I asked that is the fact that some people have inquired, that if they are not 55 years of age, and yet they already have 25 years service, they are still being subjected to the penalty of .25%.

MS. McMAHON: That's right. When we looked at developing an early retirement plan, we looked at a plan that would give a more or less similar benefit to all of the people involved. So, the people who have to have a reduction in their benefit are those between 50 and 55. Now, the reduction in benefit is 3% reduction a year, which is really a little bit less than is actuarially required.

The incentive, you might say-- The 50-year-old person with 25 years of service, if they take the incentive and still have the reduction, it's a wash, more or less. But they are still getting an incentive in that they will be able to retire without the reduction.

The other thing I would like to point out: Once you are giving an enhancement to younger people, it costs the system more. So, people under 55, because the reduction-- An actuarial reduction would be greater than 3% a year. These retirements cost more. So, we felt that to have a sound program, we really had to leave that reduction factor in, or else we would be giving a greatly enriched benefit to those people in that group.

SENATOR McMANIMON: One other major area of concern that I've had is the fact that we have projected this early retirement strictly for State employees. Knowing the economic crisis we are being subjected to in this State right at the present time, there are potential layoffs in many county governments and municipal governments. People who have been participating in PERS over a period of years feel that they are not being protected, and that they could possibly be subjected to a layoff without having the opportunity to qualify for a program such as this, because we have restricted it to only a State level.

MS. McMAHON: Senator, a number of people, I believe, have approached both of us about the possibility of extending this program to local employers. I think that is an issue that has to be studied a little bit more.

I think I can speak administratively: There is no way that the Division of Pensions could possibly handle any more than the State employee retirement incentive now.

I think there are different issues with the locals. For example, the kind of plan we have designed is designed for State employees who do have free health after 25 years of service. Many of the locals do not have that benefit, so perhaps a different kind of plan should be designed for that group.

I would think that that would be separate legislation. I would say from an administrative standpoint,

that the Division could not handle another early retirement program until probably January of 1992, so there is--

SENATOR McMANIMON: I realize that you wouldn't be able to handle it now, because with the processing period, but is it your intent to follow up, or that we should follow up, with legislation with respect to county government and municipal government, because they, too, are members of PERS? There is an aspect there that we cannot ignore, that we have a responsibility to as well, because we are tapping into the PERS fund.

MS. McMAHON: I think that is being looked into as we speak. Certainly, if legislation is introduced, we will deal with it.

SENATOR McMANIMON: I just want everyone to be cognizant of the fact that coming down the road, we will have to go with separate legislation in reference to county government, municipal government, and those separate entities of government that are autonomous.

MS. McMAHON: Right. I think that would be appropriate to look at.

SENATOR McMANIMON: I have no further questions.

SENATOR WEISS: Thank you very much, Senator McManimon.

I have Senator Haines, who has something on a point just made.

SENATOR HAINES: Yes. I like the idea of early retirement and tend to support the concept because I think it is a very humane way of taking care of the situation where we do have too many State employees and we can't afford them.

On the other hand, I am concerned about the situation that Senator McManimon brings up. In that this is a tax-exempt organization, and if we discriminate in the sense that we are giving State employees a right that we are not giving to other employees who are in the system, I wonder if we are not going to lose our tax-exempt status here? That would be a terrible thing to have happen.

I just wonder if we shouldn't explore that? What is your answer to that? Have you studied that from a legal standpoint? Are we on thin ice doing this, because it concerns me greatly.

I feel that one of the things that we have in this State that is very precious -- I don't know if that is the right word -- but our retirement funds should be handled very, very carefully, because every State employee has that as his backup at retirement. I think we should be very careful about how these funds are handled and not impinge upon their integrity.

MS. McMAHON: Senator, in my opinion we are not jeopardizing, at all, the tax-exempt status of the PERS plan. However, a number of people have raised that issue. I think the issue was raised, because a couple of years ago there was some movement to increase the benefits for a group of people within the State portion of the plan. There was some feeling then that that might jeopardize the tax-exempt status, and there was some notice in the newspapers. So, I think the question came, really, on a different issue. However, because a number of people have raised that issue again, I am looking into it further.

But I truly believe as a benefit professional, it does not jeopardize it, and clearly, the State and local governments -- even though we are talking about one pension plan -- they are funded separately. In other words, this early retirement program will be paid for by the State. If the locals had a program, the locals would pay for it. So, the contributions are segregated.

SENATOR HAINES: The contributions are segregated, and yet, it is all one system, and what we are doing-- Again, I am for what you are doing, but I'd hate to think that we are discriminating against one group in favor of another group, and certainly that is something that we've got to look into further.

The other aspect of the situation: Are we robbing Peter to pay Paul? I don't mean to be negative about this, but certainly we have a budgetary problem, and to solve a budgetary problem we're dipping into pension funds. Are we, at this point, by dipping into these pension funds, hurting the total pension program? Are we hurting the people in the future who need the pension funds? Are we hurting the integrity of the whole system?

MS. McMAHON: No. We are not hurting the integrity of the whole system. As a matter of fact, by having an early retirement program of this type, it will be future taxpayers who will benefit by having a downsized, more efficient government. So, I think it is future beneficiaries and taxpayers who will benefit.

SENATOR HAINES: Well, there is no question that taxpayers will benefit because we have a smaller State government, but my problem is, will the folks who are in the pension plan have a problem in the future because the pension plan will not be as solvent as it should be?

MS. McMAHON: It will be as solid because there is \$9.1 million extra that is going to go in for 27 years. So, if no extra money was going in, perhaps one could say that, but it is being funded to take care of the additional incentive.

SENATOR HAINES: Thank you.

SENATOR WEISS: Thank you very much, Senator Haines.

The cosponsor of the bill, Senator Stockman, do you have any questions?

SENATOR STOCKMAN: Mr. Chairman, I have no questions, but I want to thank you, as Chairman of the Appropriations Committee, and Senator Lipman, my good friend, the Chairman of the State Government Committee, for bringing this array of people together and, I think, reflecting the importance of this bill and the need to move expeditiously on it.

I'm delighted that Ms. McMahon is here to answer questions. I'm more interested, really, in hearing from some other people, particularly union leadership, about their reaction to this proposal.

So, I have no questions. Thank you, Mr. Chairman.

SENATOR WEISS: Thank you, Senator Stockman. We are going to get to that in a very few minutes. I have two more speakers on my legislative list here. The next one is Senator Littell, and then Senator Lipman. Then we will go to the public hearing.

Senator Littell?

SENATOR LITTELL: Thank you, Senator Weiss.

Director McMahon, the intent of the administration is to downsize government, and this is part of your package. I commend you for that, because I've been here 24 years, and nobody has ever truly done what you are attempting to do. And it's not easy.

In the bill, there is no real reference to the fact that these jobs are going to be eliminated and expect to be saved, except for the statement. It would seem to me to be a wise and prudent thing to do, to amend this bill, or to provide a companion bill, that is tie barred to it that would provide some sort of guarantee to the public that these jobs are not going to be replaced with new workers, so that the downsizing that you are doing is meaningful.

I think that we ought to consider that, and I would like to have your comments.

MS. McMAHON: Well, I think it's clear to me that the positions will not be refilled. I mean, the purpose of the program is to reduce the impact of the involuntary layoffs, and certainly, if the positions would be refilled, it wouldn't reach the goal that we've set.

I'm not sure if it's appropriate to amend the legislation to take care of that.

R I C H A R D F. K E E V E Y: Senator, may I comment also? In the budget that we presented, we have made the reduction in the salary accounts equal to the early retirement costs. That \$55 million has been pulled out of the recommended budget to represent the cost of these employees. The intent is not to replace these employees, so we can achieve those savings year after year.

SENATOR LITTELL: I understand that and I appreciate it, but I've been here long enough to know that when the economy gets good, we find a way to transfer funds and hire people that we shouldn't be hiring. What I say to you and what I say to my colleagues in the Legislature, is that if we are serious about downsizing State government, then we ought to put it into the legislation that before these jobs are refilled at any point in time, that the administration should at least notify the Legislature in writing, that it has an intention to make such a change, so that all of the members of the Legislature would know that that's happening. Would you have any objection to that?

MR. KEEVEY: I don't think there would be any objections to that.

SENATOR LITTELL: On another question: Director McMahan, you said that you only captured the savings generated by the reduction in force through early retirement of State employees, and not the State teachers.

Now I realize that the teachers and professors at the State colleges may be replaced, but they also might be replaced with teachers or professors at a lower salary range. Isn't there any savings to be captured here at all?

MS. McMAHON: I don't believe the savings are captured in the State budget.

MR. KEEVEY: Any savings that might accrue with the colleges have not been reflected in the budget. We have only taken savings in the budget, reflective of the 70,000 or so

State employees. If there were savings at the colleges, they would accrue benefits within their accounts.

The underlying assumption behind this is, if those savings accrue and they backfill the professors, they would gain that increment of benefit perhaps to offset their 8% and 9% cuts that are in their current year budget.

SENATOR LITTELL: How are we going to know that?

MR. KEEVEY: Well, we will know who is going to retire, and we can monitor that as to if they have lost 20 professors at "X" amount of dollars, and replaced the professors at a lower salary, we can calculate that difference.

All I am saying, we have not itemized that particular savings in the budget.

SENATOR LITTELL: You estimate there will be some, but you don't know for sure what it will be?

MR. KEEVEY: It's not reflective in the numbers.

SENATOR LITTELL: Thank you.

SENATOR WEISS: Thank you very much, Senator Littell.

All right. Senator Lipman, and another volunteer after her, Senator Rand.

Senator Lipman?

SENATOR LIPMAN: Ms. McMahon, in your handout that you have kindly given to us, on the last page, about total annual cost, you say that-- Although we don't have a fiscal note yet to this bill you know, we haven't gotten any yet--

But you say for PERS it is 9.1 million for the initial year with a 3.86% increase for each year for 27 years is funded through the pension fund accrued liabilities. Now, my question to you is, for this 27 years, who will pay the cost? Is it going to be shared between the employee and the State?

MS. McMAHON: The cost will be paid by the State. The employee contributions for PERS are set, that will not change. So, it is the State who will be paying it.

SENATOR LIPMAN: Well, in TPAF, I note you have 1.1 million for each year over 30 years, but there is no figure for ABP.

MS. McMAHON: The statement that I made above those two charts, that the costs outlined below are PERS and TPAF system. The lump sum payments to the members of the ABP would be borne by the colleges and universities. So, again, I didn't want to capture any costs that really -- costs or savings -- that were not State costs or savings.

SENATOR LIPMAN: All right, but still you are not showing TPAF in the budget, itself, this year, are you?

MS. McMAHON: Well, in the 55, yes. The 55 million that Director Keevey spoke about incorporates both the TPAF and the PERS, in pieces, as far as the savings go.

SENATOR LIPMAN: All right. As a follow-up to Senator Littell, could you give us some idea in what departments the eligible people are located?

MS. McMAHON: In most departments the number of eligible people are in the neighborhood of 4% of the total members of the department, with a couple of large differences.

In Transportation, 12% of their employees are eligible. In Agriculture and Banking, it's 11% and 12%, and in Labor and Industry, it's also 11%. All of the other departments range from 1% to 6%.

SENATOR LIPMAN: So then, it won't have particular effect-- I mean, we won't see the difference of losing these employees.

MS. McMAHON: Initially, when we were planning the program, I believe lists were given out to the Commissioners, so that they could look at who would be eligible and the job titles these people would be in, so they could examine the impact.

SENATOR LIPMAN: All right. Now, there is just one question which has bothered me about this whole issue; and that

is, why did you choose the age 50 as the standard? How many more employees, for example, would be eligible for this if you didn't have the age 50 requirement?

MS. McMAHON: We had a lot of discussion about that, and if we had no bottom age limit, 600 additional people would be eligible. But, as I had mentioned earlier, when you start talking about giving incentives to people who are in their '40s, you're talking about a very long time to pay out pensions, and even though these individuals would have that pension reduction, the pension reduction doesn't pay entirely for the extra cost.

So, the younger people would definitely be more expensive to the pension system, and I'm not sure if we want to design a program to enhance the retirement benefit of people who are under 50. Most early retirement programs do not give an incentive to people under 50. It's not common practice.

SENATOR LIPMAN: The questions that we have, mostly, "If I have 25 years of service," -- you know that one -- "why is it that I can't retire right now?"

Thank you. Ms. McMahon.

SENATOR WEISS: Thank you very much, Senator Lipman. The next one in this area is Senator Rand.

Senator Rand?

SENATOR RAND: Thank you, Mr. Chairman.

Mr. Keevey, if I followed you, you said that the 55 million is in the '91-'92 budget, and you've reduced the salary accounts by 55 million?

MR. KEEVEY: That's correct.

SENATOR RAND: Let's set the 55 million aside for the minute. I'm sure you've reduced those salary accounts, and I haven't looked at them, totally, but they have probably been further reduced from last year.

MR. KEEVEY: That's correct.

SENATOR RAND: So what you do is, actually you have a norm: By reducing the salary accounts you reduce personnel, rather than going through another procedure, reducing personnel; is that correct?

MR. KEEVEY: Correct.

SENATOR RAND: As you squeeze the salary accounts, you squeeze the personnel. Am I correct?

MR. KEEVEY: That's correct. Mechanically, how we did it, Senator, was: We have a line deduction in the fringe benefit accounts, and we are going to take \$55 million out of the fringe benefit accounts -- let's say Social Security -- and then we are going to replace the Social Security account from salary moneys within each individual department as those employees leave.

SENATOR RAND: You will lower that?

MR. KEEVEY: That's correct.

SENATOR RAND: Let me just follow you, then. If we don't pass this legislation, then you have to add \$55 million back. Then you have the choice of doing two things that will incur to whatever deficit that we have. Is that correct?

MR. KEEVEY: Right.

SENATOR RAND: Or there is a layoff; is that correct?

MR. KEEVEY: Correct.

SENATOR RAND: That's in simple terms.

MR. KEEVEY: Correct.

SENATOR RAND: Thank you very much.

Thank you, Mr. Chairman.

Thank you, Mr. Keevey.

SENATOR WEISS: Thank you very much, Senator Rand.

SENATOR McMANIMON: I have a very serious question.

SENATOR WEISS: Oh, okay. I didn't get your signal.
Ask your serious question.

SENATOR McMANIMON: One very serious consideration: What is the actual meaning of section 5, which discusses the

loss of Civil Service protection, under Title 11A, because, if I recall correctly, in our prior discussions we had discussed sick leave and vacation time. I realize that the bill has to be amended to incorporate that to protect their sick time and their vacation time. This particular section, would they lose that, if we leave that in?

MS. McMAHON: As a matter of fact, there has been quite a bit of discussion, in that section 5 was deemed to perhaps -- deemed that a person would not get their sick leave payout because you were giving up all of the Civil Service rights and privileges.

We, as a matter of fact, have drafted an amendment to that paragraph to make it clearer. It certainly was not the intent to have people who go out under early retirement lose the right to sick leave, and so-- I don't have the language with me right here, but I think we can fix that.

SENATOR McMANIMON: One other statement: I have a fiscal note from Legislative Services, here -- a legislative fiscal estimate -- and the statement here said, "Applying the fringe benefit factor to the estimated retirees for each system at an average salary of \$32,000, the fringe benefit savings would be an estimated 10,025,000," or 2,625,000 more than the Governor's estimated savings.

I notice Mr. Silliphant is here, and I just thought basically, that you would like to know that their estimate of savings is a little bit more than yours, which is complimentary to it.

SENATOR WEISS: I haven't seen Gerry smile today.
(laughter)

SENATOR RAND: That report wasn't colored in any way whatsoever, was it, Mr. Silliphant? It wasn't prejudiced in any way, was it?

G E R A L D D. S I L L I P H A N T: Absolutely not, Senator.

SENATOR WEISS: Do you have the perfect question, Senator Haines?

SENATOR HAINES: Yeah. I just did some work on a yellow pad -- and that doesn't always work out, but-- I just figured if we had 2000 employees who retired 10 years earlier than they would normally, that the total cost to the State over that period of time, because they are going to be in retirement for 10 additional years than they would normally -- and I'm not including the fact that you would lose the fees that they would be putting into the retirement system while they are in the system; I'm just talking about what it would cost. It would be 300 million.

Now, you've got a figure here of 10 million a year that you are putting in. Ten million a year times 10 years is only one-third of the cost. I just don't see how this comes out?

We have a statement here by the Division, estimated on-- And they didn't use a yellow pad, apparently. They have more sophisticated methods than I have.

SENATOR WEISS: Even pens.

SENATOR HAINES: They estimated that based on approximately 1400 employee retirees calculated at a cost paid over 27 years, it would be 338 million.

Yeah, he's got something better than my yellow pad. (acknowledging an aide handing Senator Haines a desk calculator)

I just don't see how this comes out, with the \$10 million payment into the fund each year. I think we're shortchanging the fund, and to me, it doesn't work.

When you retire somebody-- And I'm for the general concept here, but I just don't want to see our pension fund be hurt.

MS. McMAHON: All right. There are two phases to this.

SENATOR WEISS: May I interrupt for just a moment, please? I understand what you are saying. I also understand

what Senator Haines is indicating. Why don't we all work off the same piece of paper. There are some demographics that you passed out, and the Chair is willing to entertain those, okay?

Pick the sheet that you have in front of you, so that Ms. McMahon has a picture of what you are talking about, Bill, and let's all use the same one. Otherwise we are going to be bandying this stuff back and forth.

I do think you have a point.

SENATOR HAINES: Would you say that we are dealing with 1400 or 1500 employees, or 2000 employees? How many?

MS. McMAHON: The number of employees that are estimated to go out? We are talking about 1600 in PERS, total; State university; and 168 in TPAF. So, if you wanted for the sake of argument to talk about the 9.1 million in PERS, what we are saying that if 1600 people retire in PERS, it will cost 9.1 million a year. But that number is bumped up by 3.86% a year for 27 years. That is the cost to the system.

If we have the money to pay right up front, it would be \$160 million.

SENATOR HAINES: Well, the problem I have is that if you-- Are these people going to retire, on an average, 10 years earlier than normal, or five years earlier than normal? What is the figure, there? You must have--

MS. McMAHON: Okay. Actually, the way actuaries work is very complicated, but, they have a probability of retirement for each particular age. So, when you look at the 1600 people and what their current age is, and what the probability of a 55-year old retiring, a 56-year old retiring, and all those factors are added up. That's how they come up with a cost; looking at the ages of the people who are included in this pool of 1600.

So, it's fairly esoteric, but it works out under very accepted actuarial principles to be this number.

SENATOR HAINES: Well, how come the Bureau of Pensions says that the cost would be total payments of 338 million? That's an OLS figure.

MS. McMAHON: Are you talking about the number that I gave out just before lunch? Are you questioning that? Because the--

SENATOR WEISS: The Senator wasn't here.

SENATOR HAINES: I was not here. I'm sorry.

MS. McMAHON: Oh, okay. I'm sorry. The 9.1 million-- If the question is, "What is the number 27 years down the road?" It is 420 million. I did work that out.

SENATOR HAINES: Four-hundred-twenty million. So my yellow sheet wasn't too far off?

MS. McMAHON: No, no.

SENATOR HAINES: But how do you get 9.1 million per year to get 400 million? You know, I can buy a Mercedes, and I can pay \$20 a month. The problem is, there are just too many months. I'm not going to live that long.

MR. KEEVEY: In the first year, it's 9.1 million. In the second year it's 103.86% of that 9.1, and then each year thereafter, it builds on top of that, so that in the 27th year, it isn't \$9 million.

SENATOR HAINES: What is it?

MR. KEEVEY: Well, I don't know. It's 9 million times that 3.86% each year.

SENATOR HAINES: So, it's much bigger than 9 million.

MS. McMAHON: It's 24 million.

MR. KEEVEY: Twenty-four million.

SENATOR HAINES: So, we are really robbing Peter to pay Paul?

MR. KEEVEY: No, because on the other side of the ledger we have 55 million savings in the first year, and then in each year thereafter -- assuming those people are not

filled, and that's the intent -- there is a \$62 million savings each year because we won't have to be paying the sick leave buy out.

Sixty-two million, times just 27 years would give you a 1.6 billion savings, not adjusting for inflation, as contrasted to the \$420 million, adjusted for inflation.

So, if you just compare those two numbers over a 27-year period, we have a 1.2 billion savings, and it will be bigger than that, because in my quick calculation, I didn't adjust for the fact that employee salaries would have gone up in the meantime.

SENATOR HAINES: Well, I agree with that, but I am very concerned about what Senator Littell said earlier.

All of us sitting around this table may agree that we should cut and have slimmer State government. That doesn't mean that the legislators who are here six years from now will agree with that. It seems to me that what we are doing is establishing ourselves in more debt than we need to be. If five years or six years down the road we have a bigger State government than we have now, we're going to think that what we did today, or what we are doing now, was not too bright.

SENATOR WEISS: Well, just think, Senator, if we don't do it now, how big government will be some years down the road? So, you know, there are penalties to pay for all of it, and I'm not sure -- as you apparently aren't either -- about what's going to happen in that part of our future, but--

SENATOR HAINES: Senator, you and I agree on many, many things, and I think we agree on this one. The attempt to downsize State government is certainly a worthy attempt, as I agree with Senator Littell, but when my Dad was here in the '50s, the total budget at the end of the time that Al Driscoll left was 149 million. We are now 100 times that.

State government has grown just by leaps and bounds. Because there are a few people who want to downsize it today,

doesn't mean that it will continue to be downsized. We know what the trends are, and they're not strictly Democratic trends. They are Republican and Democratic trends.

SENATOR WEISS: I didn't think there was anything political in that statement at all, Senator. However, what I would like to do is to get the meeting moving, and I don't think we are going to get the final answer--

SENATOR HAINES: I think you got my point.

SENATOR WEISS: We have your point.

SENATOR HAINES: I'm concerned about this pension fund.

MS. McMAHON: All right. One other point: I had mentioned the present value of that 9.1 million, if we paid it all up front, it's 160 million. If you look at that, really, we've recaptured 160 million in three years, so we are recapturing really, rather quickly, the cost of this program in salary savings.

SENATOR HAINES: Thank you. My yellow pad doesn't agree. (laughter)

I appreciate it.

SENATOR WEISS: Thank you, Senator. I appreciate it.

I have a question or two for you, Ms. McMahon.

Notification of eligible employees: Could you explain what action has been taken to date with respect to notification of the eligible employees involved in this? How did you notify them? When did you notify them? Have they been notified, except through the press?

MS. McMAHON: Okay. Yes. Part of the packet that I handed out has a couple of yellow sheets, and on one of the yellow sheets it has the Division of Pensions Targeted Action Plan. This Action Plan hasn't gone into effect yet, but I wanted to demonstrate there are a number of steps that need to be taken before early retirement occurs, and the retirees get their checks.

Step number one: The hot line has been set up, and since the telephone number was published in, I believe it was The Trentonian, we are getting about 500 calls a day. So, the word is out, and most people do know about the program.

We have started to do retirement estimates in anticipation that the program will go forward.

We will be ready to do the mailing as soon as the legislation passes, and then all of the other steps have to occur. We do plan to run large workshops for the people who are eligible, because I think it is important that these people know what their benefit is, and there are a lot of other attendant questions having to do with retirement in general.

So, we're geared up and ready to go, and I'm hopeful that this legislation passes quickly so that we can put our targeted action plan into action.

SENATOR WEISS: My next question has to do with the purchase of service credit. A lot of us are interested in that. Can you comment on the legislative initiatives regarding the purchase of service credit? What do we have to do?

MS. McMAHON: Well, the Division of Pensions has gone on record as supporting the bill.

SENATOR WEISS: Wait a minute.

MS. McMAHON: Pardon me.

SENATOR WEISS: I didn't hear you.

MS. McMAHON: Oh, excuse me. The Division of Pensions has gone on record as supporting the bills -- the O'Connor bill, the Zangari bill, the McManimon bill, I believe -- toward the veterans' purchase. We do support the purchase of temporary service.

The question has come up, if these bills were passed, how would it affect early retirement? We've tried to take a guess as to how many additional people might be eligible, if indeed, these bills would pass. We've come up with a guess of

500 to 700 additional people might be eligible for early retirement, if they were allowed to purchase some of this temporary time that they have.

I also would like to add, that if these bills go through -- and this is an administrative issue -- there probably will be 100,000 people who will be eligible to purchase time that we will have to do calculations for. But only a very small number would be eligible to buy time, and in fact, be eligible for early retirement.

SENATOR WEISS: Isn't the purchase of time a rather expensive procedure?

MS. McMAHON: Well--

SENATOR WEISS: Take the age group we're talking about, 50. A person has to--

MS. McMAHON: It depends on how much time.

SENATOR WEISS: Okay, let's say they can purchase, what? Military time, I suppose, would be the most prevalent. Let's say five years of military time, age 50.

MS. McMAHON: To purchase military time -- and I don't have the exact numbers -- you're right. It is expensive. However, if someone needed to purchase just a small amount of time to be eligible for a program that perhaps would give them free health in retirement, the purchase of the time is well worth it.

The other purchase of time that people would be allowed, would be to purchase temporary time under the O'Connor bill. There are many people who joined PERS before it was mandatory to join immediately, who waived the first four months of membership, who decided to join four months after being eligible. There are a number of people who are only four months away from meeting the criteria for early retirement, so those people, perhaps, would be able to purchase time.

SENATOR WEISS: Those are close misses. I'm talking about a miss that's-- A miss is as good as a mile, you know?

MS. McMAHON: Okay.

SENATOR WEISS: Somebody who misses it by some years, instead of-- I know we had the situation here where someone was given up by a couple of days or months, somehow transferred from one part of the pension system to another, or from one person to another. I'm not talking about those. I'm talking about someone who is looking for more time than that.

Maybe the question that I should ask is: I know about military time; what other options are there in time purchases, other than the one or two days, or a month, or whatever it is?

MS. McMAHON: Okay. The questions that we get from most people who want to buy time -- the questions that come to the Division -- have to do with people who worked in some temporary capacity or provisional title, perhaps for up to a year before they were put in permanent status. They could have bought that time, as long as the purchase was made within one year of becoming a temporary employee. Most people did not realize that, nor become interested in it until they started to think about retirement.

So, we have a number of people, and a number of appeals from people, who are trying to buy one year of time. That's the large majority of people I see who would benefit by the passage of the O'Connor bill.

SENATOR WEISS: The cost of that one year is based on what year of service: the first, where they lost it or the last, where they are about ready to get out of the system?

MS. McMAHON: The cost is based on their present age and the salary -- their highest salary -- which in 99% of the cases will be the salary that they are currently earning. But, in fact, if the salary they are currently earning is not the highest salary, then the purchase would be based upon their highest salary.

SENATOR WEISS: You can't lose that. If you had a job paying, let's say-- I'm only using this to clarify it for

myself. If you had a job let's say about 70,000. You lost the job and came back at 50,000. You'd still have to buy at 70,000?

MS. McMAHON: That's right.

SENATOR WEISS: That requires some thought.

SENATOR LIPMAN: Just one question?

SENATOR WEISS: Sure. Senator Lipman.

SENATOR LIPMAN: Thank you. Someone has already asked you if this program would be available to county and local employees, and you said the State couldn't handle it at this time.

MS. McMAHON: The Division of Pensions, administratively--

SENATOR LIPMAN: I mean, I'm sorry. It could not support it at this time.

MS. McMAHON: Yes, yes.

SENATOR LIPMAN: I want you to make a projection about when could the Division of Pensions handle such a program?

MS. McMAHON: Administratively? January 1, probably. That would be my best guess.

SENATOR LIPMAN: Of 1992?

MS. McMAHON: Yes, 1992.

SENATOR LIPMAN: Okay. Thanks, that's good.

SENATOR WEISS: I'd like to change the format of the hearing at this point and go on to the public hearing part of it. But I think we are going to have to make some rearrangements at that table. There are apparently two mikes down there that record things, and I may have to ask you, Ms. McMahan, and Ron, to perhaps move over to the other side so we could leave-- It will be easier to move you than those mikes. I've had that experience here before. We don't have too many rocket scientists around, so we're just going to change seats.
(witnesses comply)

Thank you. I have a list of folks who would like to testify. I would like to use the same system that we use in public hearings and/or the Senate Revenue Finance Committee meetings; that is, you have 10 minutes. I have a beeper up here. If you do it in 10 minutes, you're great. If it takes you longer than that-- Our concentration isn't 11 minutes, so, use your own judgment. But those who we'll call on, 10 minutes. If we're still here at 8:00 tonight, and you want a second turn, I'll be happy to sit with you and entertain that.

Why don't I call, for his 10 minute period, Mr. Trivelli. Vince?

Yes, right there. The microphone arrangement is fine. You'll get on NJN and all kinds of tapes, and you may get yourself into big trouble.

V I N C E N T M. T R I V E L L I: I think I will.

Thank you very much. I'm Vince Trivelli. I'm the Legislative Coordinator for the Communications Workers of America.

The people should realize, that here, today, we represent both the State employees and a good number of local government employees, so we have concerns on both sides of that ledger.

Let me just say that CWA, in general, supports early retirement programs. We would have wished that the Governor's Office had sat down with us to discuss this prior to putting in a bill and coming here.

We testified at Mr. Cimino's Committee, and we are testifying here today, but this is really the first time that we have had an opportunity to present our views on this. It is of drastic importance to our membership, and we would have hoped that there would have been other discussions.

Let me also just say, that in terms of downsizing State government, people should remember that when you downsize State government, you have people who are involved, and you

have services that are involved. The people of New Jersey want clean beaches. They want bridges that don't fall down. We just don't want a situation where we are downsizing for the sake of downsizing, but I suppose we will testify about that later, when we testify about the budget.

With regard to the bill before you today, let me say again, we are generally in support of early retirement programs, though we have some concerns about the way this bill is drafted, and some of its impacts.

First, we are very much concerned about -- and I am pleased to see that, I think, it was Senator McManimon raised it -- the section 5, which urges waiving of the Title 11A, Civil Service rights. Now, I understand there is going to be an amendment, but we want to know what that would still waive. We don't see a reason to waive any portion of Civil Service rights. We would not urge an amendment there. We would urge that that section be taken out, because we do not understand what people would be waiving in that regard if it's not sick time, and we certainly would not support it, if it were sick time.

Section 6, which gives management the ability to keep an employee on for a year: We have some concerns about that and would urge that it be the employee's choice whether or not he or she stays on for a year. That is, if the employer would like that person to stay on, they can request it of the employee, but it would not be mandatory for that employee.

Now, with regard to the county governments, we are very pleased to see that that issue has been raised today. We have two concerns about that.

One, we think that this program, or some variant of this program, should be available at the bargaining table for local governments, and should be available now, not months from now. We have negotiations going on now. We've got layoffs going on now around this State. We've got budget deficits

around the State. And to say that we can't offer it now, because we can't administratively handle it, is not an answer to someone up in Bergen County, or Essex County, or Mercer County, or the towns around the State, that is being laid off; to say that the State can't handle it administratively, so we are going to wait a several months. We think it should be done now.

We also want to ensure that-- And this has been raised at the bargaining tables by the employers around the State -- that is, the local government employers -- that we understand that it is supposed to be a system where the State is segregated from the local government in terms of the actuarial figures in terms of how much the towns are paying. They are concerned and are telling our people at bargaining tables that they are going to have to pay the cost of the State program.

We don't believe that. We don't think that should be true, and we would like to see it made clear in this bill that that's not true.

We also have a concern -- the fourth concern -- is about the size of the window period. April 1 to June 1 or July 1 is a very short period of time. We would urge that that window period be expanded, especially if what we want to do here is to offer a viable alternative to layoffs.

That sort of leads into the next one, where we should expand this to make sure that as many people as we can, get involved in this. This 1600 is a number -- and that is a good number -- but if the Governor is really concerned about being more fair and how we are going to reduce the size of this government, then we can expand these incentives, to increase the number of employees that are able to come under the fund.

We would like to see -- we have not yet seen -- the numbers on the effect. There have been some questions about this today, the viability of the fund itself once this

happens. The State is going to save some significant amount of money. The State saved money from PERS last year and this year because of prefunding, where we got 40 million from the State side, 50 million from the local government side. That number is slightly smaller this year, but it is coming again this year, and for five years.

The pension system has already given, to try to help the State budget, and we just want to make sure that the core of the fund is not hurt. We want to see the numbers on this, and if it is hurt, we want to make sure that some of that savings is directed toward the fund so that it is not hurt for the future people who retire.

We are also very pleased that there were some other issues raised, like temporary time. We would like to see S-1337 and some veterans' bills -- military time, veterans' dates -- those sorts of bills that we have been talking about for a very long time, be incorporated into this. Again, to make sure that as many people as possible can come under this program.

The potential retirees have some concern that the Governor has put on the table a very draconian health care shift to employees of this State, where employees would have to pay 25% more for their health care. We, of course, are fighting that, and we are urging this Legislature not to adopt that, but we want to make sure that retirees don't come under that, and if there is some shift in the law to shift increased costs on the health care system that the employees pay in, that the retirees don't have their retirement damaged by having to pay it.

Lastly, we are also concerned about the issue that Senator McManimon raised about the reduction for the people at 55 -- that reduction.

So, those are the areas that we are concerned about:

* We are in favor of general early retirement.

- * We don't want people to waive rights.
- * We want the local governments to be involved in this, as well.
- * We want it to be as broad as possible to minimize layoffs.
- * We want the employees to have th control over if and when they take this, not the management.
- * We want to see the numbers on the viability of the fund.
- * And we want some issues like the buy back of temporary time, military time, veterans' dates, those sorts of issues addressed.

I know I went through quickly, but I only have 10 minutes here, so--

SENATOR WEISS: You have four left, Vince.

MR. TRIVELLI: I'm open to questions. And I would prefer, at some point, to sit down with the Chairman, the staff, and the State to work out some of these.

SENATOR WEISS: Well, everything you have indicated in the last six minutes has been recorded. One of those microphones goes to a tape recorder. It's hidden right here, under my desk, but that we'll talk about later.

I do have a question for you. I picked up in your testimony somewhere, that you said that you had -- I think this is what you said -- that you had a viable alternative to layoffs. I'd be curious-- If that's what you said, I'd be curious to hear at this time what that is, or what they are.

MR. TRIVELLI: We have some--

SENATOR WEISS: You did say that, didn't you?

MR. TRIVELLI: What I said was, if the Governor wants this to be a viable alternative, he should expand it beyond the 1600 to include other incentives, so that the number of people who come under early retirement is greater, so the number of people who have to be laid off under the Governor's plan is less.

I didn't come here today prepared to testify on the overall budget, but we do have areas, let me just say one area--

SENATOR WEISS: No? Well, we're not here for that.

MR. TRIVELLI: No, but let me just say one area. People talk about the growth of State government, the growth of State employees. Since 1976, the growth of management in this State has grown by 128%. The growth of employees in this State has grown by 17.7%. So, we have a top-heavy government. We continue to assert that, and it continues to be true.

We also have a situation, where -- and I understand Senator Littell's question about people coming off this, and others being rehired. Every time the Merit System Board meets in this State, month after month after month, they hire confidential assistants outside of Civil Service, who make \$50,000, \$60,000, \$70,000, \$80,000 a year. That continues to go on at every meeting, and it continues to go on despite the fact that we are talking about laying off thousands of State employees.

Those sorts of things have to stop.

SENATOR WEISS: Those are problems. You are probably right. Those are things that should be looked at. Hopefully, we are going to get to look at them. I can't answer you right here, but we can sit down and discuss the matter without too much of a problem.

Senator Littell?

SENATOR LITTELL: Mr. Trivelli, you talked about expanding the window to make more employees eligible. Have you put anything in writing? Have you thought about it? Would you give us some idea? Would you not only expand the window, but change the method, so that maybe it's tied to their anniversary date, so you don't have everybody applying for retirement at one time?

MR. TRIVELLI: We didn't think of that, but we certainly will. We can put something in writing. We were

thinking somewhere in the area of September or so; that is, an April to September sort of date. But we will put that in writing and look at that.

We will also put before the Committee some proposals that say, would make it 50 with 20 years, rather than 50 with 25 years, and you get the five years of service to get the health benefits. But it would drastically increase the number of people who would be eligible for this, and that would reduce the number of layoffs, but I could--

SENATOR LITTELL: I would like to see that.

MR. TRIVELLI: Fine.

SENATOR WEISS: You did have alternatives.

MR. TRIVELLI: Yes, and I can submit them. But that is in terms of the retirement program, itself. Two sorts of changes that we would make is: Make the minimum 50 years of age with 20 years of service, and then, when you got the five years, you'd get the five and you'd get the health benefits; and at 60, with 10 years of service. But those are the sorts of things we would like to sit down in a more detailed fashion to talk about. Those are the kinds of things to expand this program; so that more people are eligible, but at the same time, making sure that those costs do not impinge on the local governments so that the two things are separated out.

SENATOR WEISS: Thank you. Senator Stockman?

SENATOR STOCKMAN: I just have an observation, and a question of Ms. McMahon:

An observation is that, Vince, you sound intense and harsh; almost angry. I know, since this is the first occasion that you have had to appear before this Committee, particularly the Appropriations Committee, that it isn't any anger with us that you have, if there is any in your voice. I just wanted to be sure of that. We are starting a journey, that I know you are anxious to have some say in.

The question I have, though, is for Ms. McMahon, and I would really prefer it be for the Treasurer, and if he comes back, I'd like it repeated. That is the question that Mr. Trivelli raised as to why, if it's so, representatives of public employees were not invited into the discussions and debate and the fashioning of this legislation? I think it's a fair question.

R O N A L D R. M A X S O N: (speaking off microphone)
Through you, Mr. Chairman, if I may?

A representative from the Governor's Office who has been discussing the benefit issues including early retirement, did give collective bargaining copies of some of our early material, back in January and February.

SENATOR STOCKMAN: I'm not talking about giving copies. It's a delicate question; it's a difficult area. But it seems to me that we ought to be trying to take advantage of the problems that the situation that we are in have, and a sharing of information, and perhaps expertise, feelings, and views.

When you tell me that something was given to somebody on the other side of the table, that isn't my instinct or understanding of what trying to take advantage of, perhaps knowledge and expertise. I understand, also, that sometimes the atmosphere gets so charged that people can't seem to contribute, but I hope we're not at that point yet.

I am troubled by this question, and I would like to explore it further with the Treasurer when he comes back: that is, the ability to sit down with people who are going to be impacted and organizations, and try to get something out of them. If the noise becomes too shrill and loud, and you know, if there is only obstruction and negativism, well-- But unless you tell me -- or the Treasurer tells me -- that's what the experience was, I'm in a difficult position not to be sympathetic to the questioner, and thereby, then, be concerned

about whether we've reached or are reaching a right judgment or conclusion in this very difficult and delicate area.

So, I'm not really satisfied with your answer, but maybe the Treasurer can elaborate on it.

Thank you, Mr. Chairman.

MR. MAXSON: I'll convey that to him, Senator.

SENATOR WEISS: Thank you very much, Senator Stockman.
Senator Lipman?

SENATOR LIPMAN: Thank you, Mr. Chairman.

Just an observation on a remark by Mr. Trivelli, but I would make the question to you, Ms. McMahon.

The employees who are presently threatened with layoffs -- all right? -- will they be told soon enough -- will there be time enough for them to know or to decide whether-- So that they will have a chance at this program; instead of being laid off, they could do early retirement? Would it be possible?

MS. McMAHON: (speaking off microphone) We've already had some discussion about the fact that this legislation will probably not pass in March. So, the question comes up, should the April 1 date that's presently in the bill be moved to May 1? I think the decision that is going to be made, that even if the legislation is passed at the end of April, those people who are perhaps laid off in March and who would be otherwise eligible for the early retirement program and have filed, because they are eligible for retirement, to go out on retirement on April 1, they will be eligible for the incentives.

So, to answer your question, yes.

MR. TRIVELLI: If I may, to the Chair? We've already had people laid off. It's not that there is a future-- There will be, apparently, future layoffs, but we have already had a good number of people laid off in the unclassified service, who are in the bargaining units. Despite the fact that the Governor indicated that they would be management people,

one-third of those have been direct service State people, some at very low salaries and long-term service to the State, so we have already had people laid off.

So that is a question: about how those people would interface with the program that is not law yet?

SENATOR LIPMAN: Right. All right.

SENATOR WEISS: Thank you very much, Senator Lipman.

Why don't we go on to the next speaker? Vince, you see, you got more than your 10 minutes. Actually you got 18, so we have to start somewhere.

MR. TRIVELLI: Thank you.

SENATOR WEISS: The next speaker is Mr. Don Philippi.

D O N A L D R. P H I L I P P I: Thank you, Chairman Weiss, and members of the Committee. My name is Don Philippi, Business Manager for Local No. 195, the Federation of Professional and Technical Engineers, AFL-CIO. We represent approximately 8000 State workers.

We would like to personally thank Senator McManimon for all his help sponsoring this bill and trying to work out, as Senator Stockman said -- at least him sitting down and meeting and talking to some of the unions, which in fact the Treasury Department did not. Senator Stockman hit it on the head when he said they just gave us a piece of paper; that's all. They didn't meet to discuss anything.

If it wasn't for Senator McManimon talking about some of the things in the bill and some of the preparations, this thing would be a lot further behind.

Just on a few things that were brought up on the bill, then: Our organization supports the bill because we know it is going to save layoffs. That's the big purpose of the bill. In fact, one of the sections that you discussed very little today was the provision that people could stay a year, with the approval of the State Treasurer. We don't like that provision in there. What's the purpose of having a bill, if you're going

to have everybody stay, if the Treasurer approves or wants to stay? I mean, if it's a Commissioner or something like that, I don't mind, but to have a provision that the people can stay and collect their money and stay and get their retirement pay, I mean, what are you saving? That's nonsense and should be eliminated, except as I said, for maybe Commissioners or heads of certain departments or agencies.

Also, in that section 6, we don't think the State Treasurer should make the decision at all. Why are they asking him to make the decision? What does he know about people in other departments? What is he, the mystery man; he knows everybody in every department? We don't think he-- That language should definitely be taken out, and we suggest that it be amended. I have discussed that with Senator McManimon.

A few things on the comments that Senator Littell had: I don't know if you remember, Senator, there is a Vacancy Review Board within the Department of Personnel. Once somebody retires, that position is held until it's discussed at a Vacancy Review Board, before it's ever filled again. That's still in existence, that Vacancy Review Board. What happens with the freeze is -- as some of the things that brother Trivelli said -- these different Commissioners sign waivers to the freeze, and the ones they want to bring on, they bring on by signing a waiver. They make the freeze meaningless, and the confidential appointments continue. But the Vacancy Review Board is still there, and it examines everybody that goes on. Sometimes a position is abolished. Sometimes a position is lowered. A lot of things are done with them, but it is on the recommendation of that agency before it is filled.

The important part that has to move along with this is the buy back bill. I'm sorry that Senator Weiss stepped away, because I have a--

SENATOR LIPMAN: He'll be back in just a couple of minutes.

MR. PHILIPPI: --member in his district who works at the Racing Commission. A lot of the people who work over there are some of the ones getting laid off. This employee started in 1976, but his seniority date-- Because over there they would hire one employee coming in as provisional; if two came in, one provisional, one per diem, all right? So, another inspector who came in along with him in '76 has a '76 date. He was hired per diem, and wasn't changed over until 1982. His seniority date shows 1982. He wants to buy back all those six years. I have about 15 more over there that-- Besides what the Director of Pensions told you, the personnel departments failed miserably in notifying employees about the buy back provision.

The Division of Pensions constantly tries to throw the blame on the employee; that it is your responsibility to read the booklet and to know that you've only got one year to buy back. The fact is, there are so many employees out there-- When she said 100,000 I think that's a small-- There are so many out there that were never told properly about the buy back provision. There are so many out there that were per diem, special services that were converted over -- all have time -- that would like to buy back under this bill, the buy back bill.

So, it is hooked in closely, and should be moving along.

Let's talk about some of the things that we thought should be in there as a sweetener to the package, that they never came to ask us anything, but I guess through representatives they were meaning for-- We made some suggestions through the Labor Advisory Board to the Commissioner of Personnel; that is, on the life insurance, Just about every other pension fund, when the employee-- Ours drops to 3/16ths. All the other ones are 7/16ths. We said, "Put that in as a sweetener." That's no big deal, to put that in as a sweetener. Make us equal with the other groups.

When brother Trivelli told you that last year, we gave 48 million out of the fund -- all right? -- before that about 78 million. All the other groups got something. The teachers got something. The PBA got something. The State workers got nothing; no other extra benefits.

As you know, we were trying to get Senator McManimon's bill for a prescription drug card for retirees. You know, we've been working for years to try to get that.

On some of their savings: Let me tell you that the big savings in this thing involves the Social Security. That's where the big money is involved. For instance, if somebody goes out at 55, and they don't take another job, there's no money going into their Social Security for 10 years, and when they go to retire, instead of getting about \$900, they are only going to end up with a \$400 Social Security benefit. That's where a lot of the hooker is in this position. A lot of people don't even know that. They think it won't affect their Social Security when they retire, but the fact is, it will just about cut it in half, unless they take on another job.

Now, they talked about taking the 55 million from the salary account. What are they taking it out of the salary account for? It's about time, all right, that the Governor puts in and starts funding some of the things he should be funding. He's just saying, "Hey, I'm going to take credit for this early retirement, but all the money is coming out of the pension fund." It's coming out of our own money, all right?

If he wants to do something, let him fund all these here. Don't take 55 million out of things that have been negotiated in salaries -- have been negotiated, out of the budget. I'm surprised that none of these Commissioners stand up for their budgets, and let him take money from these salary accounts.

The sick leave: I think that when the Division of Pensions was going through the proposal-- Like I said, they

never discussed it with the unions. What happened is, they found out they've got to pay this big lump sum for unused sick leave, and it's going to be some \$60 million. So they said, "We ain't going to pay that. We're going to throw it back on the fund." That's probably where the 55 million came from. They found out that had to be the tab for the unused sick leave.

We agree, too, that local, county, and municipal people who are in the plan, are in the system. They don't want to wait. I have people here from Newark. We've got people getting laid off. They don't want to wait for the thing to get moving. They want to be part of this bill, and part of this procedure.

As far as the hot line procedure goes over there, I think that could be greatly improved. Some people sit on there for 20 minutes or a half hour, listening to music before they ever get through.

SENATOR MENENDEZ: It's not 101 FM.

SENATOR STOCKMAN: Yeah, what radio station is that?
(laughter)

MR. PHILIPPI: I think that some of the savings figures we dispute. There has to be a lot more communication with the people who are eligible. The workshops are a very good thing, we support them.

Some departments, incidentally, for your information, have full-time pension counselors. Others have completely nothing. That's the big lapse here, that goes on. Some of the bigger departments that have a pension counselor can go over these things with the employee and have a regular procedure for people who retire anyway. The others, they have nothing. They do nothing for them.

Some of the figures that the Director of Pensions gave you on Senator Lipman's question, would it wipe out all the people? The 12% doesn't tell you if they are all management,

and I would say that if some of the groups-- From the percentage, you can look to see that a larger part of that group is the management people, or the percentage. So, it might be 12%, but if they are all in top management who go out, who's gone, who's gone?

If there are any questions, I will be happy to answer them, and I thank you for looking into these questions.

SENATOR LIPMAN: Thank you, Mr. Philippi. You just about finished on time, 10 minutes. Questions?

SENATOR RICE: Yes. I have one quick one.

SENATOR LIPMAN: Okay. Senator Rice?

SENATOR RICE: Does that mean you support the legislation? (laughter)

MR. PHILIPPI: Yes.

SENATOR McMANIMON: Wynona?

SENATOR LIPMAN: Yes.

SENATOR McMANIMON: Mr. Philippi put out a very good point, you know, in talking about the sick time. We earlier mentioned the buy back of these pension bills. What about the situation where you can utilize your sick time? Could that be coordinated, where you are allowed your sick time to buy back the time to qualify?

MS. McMAHON: I believe that has been suggested, and conceptually, the idea to use sick time to pay for the purchase of time appears to make sense.

SENATOR McMANIMON: If it fits in with the retirement structure?

MS. McMAHON: It fits in with it.

One of the issues that would have to be worked through, it is my understanding -- and this is probably a question that could be answered better by the Department of Personnel -- that the records that have to be reviewed before sick time payout is made, that may take months. Yet, a person say, who is going to retire July 1, or be eligible for the

program because of the repurchase of time, would expect to retire and receive a check far earlier than their sick leave time could be audited and a check go out, so there would be some kind of a lag time, where perhaps the person wouldn't get the check when they're supposed to. So, the way sick leave records are kept and audited is an administrative issue more than anything else.

SENATOR McMANIMON: The only other issue in dealing with pensions that I have been subjected to and confronted with is the fact that Governor Kean had signed a 55/25 for teachers, yet he vetoed it -- 55/25 -- for PERS, and there is still the feeling out there that that was discriminatory on his part, and that it should be the responsibility of the legislative process as well as the Division of Pensions to bring that in line with the same structure.

What is the feeling of Pensions on that?

MS. McMAHON: Well, I'm surprised that it didn't happen shortly after it was passed in TPAF. That seemed to be inconsistent with the history of changes in the program.

SENATOR McMANIMON: Well, the 55/25 for PERS went through both Houses and the Governor did veto it after he had signed 55/25 for teachers. We'll be discussing that more, for sure.

SENATOR STOCKMAN: Through the Chair. Ms. McMahan, this administrative problem with using sick time to transfer the buy back time: It seems to me that you could make a provisional or conditional determination of retirement benefits and payments and commence them with a qualification that, subject to calculating this sum, the pension could be recalculated at a later point to be more complete.

I mean, if you can move on that, otherwise-- It doesn't seem to me like, with modern technology and your ability to handle numbers computerwise, that ought to be an insurmountable problem, do you think?

MS. McMAHON: There may be a fiscal problem involved.

SENATOR STOCKMAN: The cost?

MS. McMAHON: The discussion that just took place (referring to consultation between Mr. Maxson and Ms. McMahon, off microphone) that we talked about: It's hard to calculate just how many people, you know, we are talking about.

When you talk about recalculating perhaps 700 pensions, it just may delay the payout of retirement overall.

SENATOR STOCKMAN: No, you misunderstood me. You wouldn't delay the pension, is my point. Even if you have 700 people who may have some added rights based on this transfer of sick time to the acquisition of buy back of other time, it wouldn't be a delay. You would work forward on the basic pension rights that they have, and then calculate those adjustments.

If you are telling me it's a cost problem, that's a different issue. If you tell me that--

MS. McMAHON: It is a cost problem.

SENATOR STOCKMAN: All right. If it's a cost problem, that's an issue that has to be debated. I recognize that.

While Mr. Philippi, I think, is very sincere in his feelings about cost problems in a lot of these areas do have to be looked at, I don't think your answer that administratively we might not be able to do it--

We have some hard decisions to make here. Some that Mr. Philippi isn't going to be happy with me over, probably, or others. But I don't want him to be able to say that I razzle-dazzled him. I want him to know, if I make a hard decision, it was a hard decision.

Do you understand?

MS. McMAHON: Yes.

SENATOR STOCKMAN: Thank you, Mr. Chairman.

SENATOR LIPMAN: Okay. Mr. Chairman is back.

SENATOR WEISS: Thank you very much, Senator Stockman. Senator Littell?

SENATOR LITTELL: Yes. Mr. Philippi, thank you for reminding me about the Vacancy Review Board. I frankly had forgotten about that, but I do want to be sure that in this process, that if we provide an early retirement for State employees and they leave, that that job is not automatically refilled. I think that we have to do all that we can to prevent that from happening. If it is absolutely necessary that it be refilled, then we have to do that as well. But there should be a process, and I appreciate you reminding me.

I have a question for you on that sweetener. You said that the life insurance drops on retirement to 3/16ths, and it should be at 7/16ths, because-- I didn't hear who you said-- Who has 7/16ths?

MR. PHILIPPI: The teachers have it. The PBA has it. The State troopers have it.

SENATOR LITTELL: Director, how much more would that cost your program, if we added that? Do you have any idea?

MS. McMAHON: I don't have an idea of the costs now. I would mention that if this is an issue that needs to be addressed, it probably needs to be addressed as a separate issue. If it's an equity issue, I think it perhaps would have to be addressed by separate legislation. I would not recommend that it be tied into the early retirement.

SENATOR LITTELL: Well, isn't that a little unfair, if it is an equity issue, to the people who we may be asking to take the early retirement?

MS. McMAHON: Well, it's an issue everyday, with anyone who retires under the PERS system right now.

SENATOR LITTELL: Why can't we deal with it right now? Tell us what it would mean?

I don't mean today, but come back to us with the numbers on that. If it costs so much per employee on the average to go from 3/16ths to 7/16ths--

MS. McMAHON: All right.

SENATOR LITTELL: --and then tell us, and we can make a decision as to whether that's a valid request or not.

MS. McMAHON: All right. I would be able to get back to you with cost figures. It would increase the cost of the early retirement program, of course.

SENATOR LITTELL: Yes, I realize that.

MR. PHILIPPI: I mention to you Senator, on the same question: Even if the employee wanted to purchase the additional, you can't do it; whereas, when you are in the system, you can buy an additional one-and-a-half times. But, when you retire it drops. You can't purchase a higher amount, which is a problem, even if some of the employees would be willing to purchase a higher amount.

SENATOR LITTELL: Some people can't buy insurance at that age.

MR. PHILIPPI: You're right.

SENATOR LIPMAN: That's right.

SENATOR LITTELL: Thank you.

SENATOR WEISS: Thank you.

Senator Lipman, did you have any--

SENATOR LIPMAN: No, no.

SENATOR WEISS: I guess we can go on to the next one. Don, thank you very much.

MR. PHILIPPI: Thank you, Senator.

SENATOR WEISS: Mr. Wirth. Mr. Thomas Wirth?

T H O M A S W I R T H: Thank you, Senator. I represent the faculty and the State colleges. I'm with the Council of New Jersey State College Locals.

SENATOR WEISS: Mr. Wirth?

MR. WIRTH: Yes?

SENATOR WEISS: Would you be kind enough to pull that other microphone over to you?

MR. WIRTH: This one?

SENATOR WEISS: No, the one on the stand. That's it. Then press it and a little light will come on. Press the white button, a light comes on.

MR. WIRTH: Okay?

SENATOR WEISS: You're on.

MR. WIRTH: Okay, I'm on.

Okay, I represent the faculty and the State colleges, and on their behalf I would like to say that we support this bill. It is not dissimilar from an early retirement program which we had three years ago. That was a program which did stimulate a number of retirements, and was generally, I think, considered to be successful.

There are two or three remarks I'd like to make, and a couple of amendments that we would like to suggest, which I don't believe are major ones.

The remark I'd like to make is with respect to a proposal -- which I believe the representative of the State colleges management may come to you with -- to possibly extend the payout for the Alternate Benefit Program people to three years rather than one year. The current bill, as you have it before you, calls for a payout to Alternate Benefit Program people of one year's salary, right up front.

The benefit of that to the colleges is obvious. They would be able to spread out their costs over three years, rather than having it all in the first year. We have been told that there might be a benefit to the individual, taxwise, in terms of having that benefit spread out over three years. But on investigating the situation, we find there is a certain amount of uncertainty about that. There is a possibility, albeit perhaps a remote one, that the law, as convoluted as it is on the Federal level, might be interpreted to require taxes to be paid up front, even though the payout is spread over three years. That, of course, would lead to an untenable situation for individuals who would have to spend their entire first payment on their taxes.

The other problem which arises from a multiyear payout is that if an individual retires into Social Security, the first year they are saved harmless, essentially, with respect to wages for that year. But in the second and third years, there are Social Security limitations on the income they can receive, and this payout would exceed those limitations.

So, given the-- We do have our attorneys working on the tax question, and we were hopeful that we could have a definitive answer, and perhaps be a little more positive about the colleges' suggestion, but at this time, because of both the Social Security problem and the tax uncertainty, we would have to support the bill as it is written, rather than as possibly amended.

We do have two amendments to suggest which are of a kind of technical nature. One relates to veterans and seeks to address a problem which exists for veterans who are in their 32nd, 33rd, and 34th years of service. Veterans in that period of service do not take veterans' retirement. They take regular retirement, because that turns out to be more beneficial.

The way this bill is written, their incentive would be less than the incentive specified for other veterans. Furthermore, there is a special veterans' benefit that kicks in at age 35, which is beneficial to veterans who stay that long, and would serve as-- Therefore, veterans who are in their 33rd and 34th years of service would be perhaps more likely to stay until they have 35 years of service, and that would defeat the purpose of this bill.

So, we have prepared an amendment which would do two or three things for the people who retire under this program. One would be to extend the method in which the veterans' benefit is calculated for those who are-- At over 35 years of service, it would extend that down to those who have 32 years of service, 33 years of service, and -- well, 31 to 34 -- and it would provide an identical benefit in terms of incentive for

all veterans, even those in this intermediate category. I can provide you with the text of that, as well as some figures that will show what the effect of the amendment would be.

Finally, I would like to suggest a very technical amendment for people in the Alternate Benefit Program. The concept of service credit is not really relevant to pensions, because pensions are paid out of an accumulated fund, and the State pays and the individual pays into the fund. It doesn't matter how many years of service you have: You just have a certain amount of money in the pot, and a certain amount of payment out. So, there is no definition of "service credit" for Alternate Benefit Program people. We suggest that one be inserted in this law to deal with people who have partial years of service and to make sure that people are not required to continue through the summer, for example, and would not be eligible, even though they have, in effect, done a full year's work at the end of June.

Those are the suggestions that we have. If you have any questions, I will be happy to respond.

SENATOR WEISS: You said you have some handouts?

MR. WIRTH: Yes. I'll be happy to give them to you. Right here.

SENATOR WEISS: Is that for each member of the Committee, or--

MR. WIRTH: Yes.

SENATOR WEISS: Okay. That would have been better to get that at the beginning, but we'll take it now.

Mr. Wirth, would you explain to me, please, what you mean by, up-front one year payout. I'm a little fuzzy on that.

MR. WIRTH: Okay. The legislation as proposed calls for five years of pension credit for members of the Public Employment Retirement System, and the TPAF. Now, in the colleges there are a large number of employees who are in yet a third pension program, the Alternate Benefit Program, which is

fundamentally different in that it involves not a defined benefit program based pension, based on service credit, but rather on an annuity that is defined--

SENATOR WEISS: By service credit, you mean the military?

MR. WIRTH: Pardon?

SENATOR WEISS: Do you mean military credit?

MR. WIRTH: No, no.

SENATOR WEISS: You used "service credit," and I have it in mind that you may be using that term, "service" in two contexts.

MR. WIRTH: Oh. Oh, okay. Let me clarify now. The remarks I made about the military relate to the regular pension programs that you have been talking about. The first remark about the cash payout has to do with the Alternate Benefit Program. Those are two separate things.

With respect to those in the Alternate Benefit Program, the legislation cause for -- instead of service credit which is meaningless in that program -- a one-year salary to be paid out to the individual as the incentive.

SENATOR WEISS: Then that person goes to their regular pension collection, whatever that is?

MR. WIRTH: Yes. They could put that in there themselves -- into the pension part -- and draw it as an annuity, or they could simply use it right away. It is a taxable payout. There are limits on the amount that can be put in or tax sheltered in the alternate benefit annuity program, and a one-year salary would exceed those limits.

SENATOR WEISS: And pay that over a period of what, immediately -- one year?

MR. WIRTH: Well, the bill before you cause for that payout to be all at once.

SENATOR WEISS: Yes, but you made another suggestion.

MR. WIRTH: Pardon?

SENATOR WEISS: I think you made another suggestion other than the bill.

MR. WIRTH: No, I suggested that the colleges will be coming to you with another suggestion. I would say that we prefer what is in the bill as written.

SENATOR WEISS: You don't prefer what the colleges are going to come in with?

MR. WIRTH: Pardon?

SENATOR WEISS: I said, you don't prefer what the colleges are going to come in with?

MR. WIRTH: We prefer that it remains the way it is.

SENATOR WEISS: The other question that I had, had to do with veterans' benefits. I think you're talking about veterans' -- veterans' benefits over the age of 35. You're talking about, not chronological age--

MR. WIRTH: No.

SENATOR WEISS: --you're talking about service age?

MR. WIRTH: Service credit, yes.

SENATOR WEISS: Service credit. How many of those could there be, with 35 years of service?

MR. WIRTH: I really don't have the figures on that. It's not too many, but on the other hand I just got a call from someone yesterday who had 34 years of credit. So they do exist.

SENATOR WEISS: Well, that's close to 35. I was just trying to-- I don't know how many people we're talking about, and I would like to better understand that. I think I would like the Committee, also, to know that. Are we talking about 100, 1000, 10,000? I have no way of having a feel for it because, by 35 years of service, you mean 35 years of working for the State.

MR. WIRTH: Yes.

SENATOR WEISS: They would have of had to be around for a long time. You had to start when you were about 20/21, so you're already up to 55, and I don't know what the net effect is going to be.

MR. WIRTH: It's not a large number of people, I don't think.

SENATOR WEISS: Okay. So, we'd need to take a look at that. I wonder if Pensions would get me the numbers on what they may have?

MS. McMAHON: All right. We will get the numbers.

SENATOR WEISS: Thank you. I appreciate that because I'm at a lost as far as-- I don't have a feel for it, and I'd like to know. Senator Littell?

SENATOR LITTELL: Mr. Wirth, you talked about the program three years ago.

MR. WIRTH: Yes.

SENATOR LITTELL: Can you tell me how much money we saved? Were all the positions refilled with new hires at a lower salary? Were some of them left vacant? Have you got any idea how that played out?

MR. WIRTH: I really couldn't give you any specifics on that. Perhaps the representative of the colleges who will follow, I think, today, might have that information. I don't have it myself, I'm afraid.

SENATOR LITTELL: Thank you.

SENATOR WEISS: Thank you, Senator Littell. Any further questions for Mr. Wirth? (no response) Hearing none, I thank you very much, sir.

MR. WIRTH: Thank you.

SENATOR WEISS: I appreciate the handout. The next speaker is Mr. Darryl Greer. Mr. Greer?

D A R R Y L G. G R E E R: Thank you, Senator Weiss. I promise you that we won't use all of the time allotted.

SENATOR WEISS: That's all right. You can use your 10 minutes, after that we just throw you out.

MR. GREER: As my Deputy, Michael Fernandez, joins me, we're going to speak on behalf of the nine State colleges.

SENATOR WEISS: Darryl, would you be kind enough to use that other microphone?

MR. GREER: Okay. This one? (discussion regarding microphones follows)

SENATOR WEISS: Now you're great.

MR. GREER: Our testimony will be on behalf of the nine State colleges. Senator, and members of the Committee: To just put it briefly, we think this is important legislation that you're considering. We're supportive. On a positive note, many of the concerns that my office, the State college trustees, and presidents have had, fortunately, your staffs-- The responses have been very open and accessible. Also the Treasurer's Office and Bureau of Pension-- So we understand the basic workings of the bill, and we support it. We do want to bring one issue to your attention, and perhaps we can answer some of the questions--

SENATOR WEISS: Up to this point it was nice to hear you say all of those things. (laughter)

MR. GREER: It's always nice to appear before you and your Committee. It's even nicer when we don't have the economic situation that we have now.

SENATOR WEISS: You're right.

MR. GREER: Senator -- I'll confine -- a suggestion which we will respectfully submit, which Mr. Wirth has already alluded to: That is, under the Alternative Benefit Program, the requirement in the legislation is that the benefit of one year's compensation be paid out at the beginning of retirement. We think that this could be a problem, both for the prospective retiring employees of the State colleges, as well as for the institutions.

I think we put before you a proposed amendment -- let me underline "proposed." What we're proposing is that the payment under the Alternative Benefit Plan would be paid in three equal payments over three years. Now there's nothing

magical about the three. After consulting with the appropriate individuals, your staff may determine that it should be two or some other number.

SENATOR WEISS: May I ask you a question? And I should have asked Mr. Wirth the same question. I think he mentioned the same thing, if memory serves me right. This alternate benefit payment that you're talking about, is that in addition to anything we now have in a pension system? I don't expect to ever be able to take in a part of that system.

MR. GREER: No. Mr. Chairman, fundamentally I'm going to see if I can really simplify it. We have faculty members and other staff who are members under the Alternative Benefit Plan who don't pay into the State retirement system. They are in TIAA-CREF, the Teachers' Insurance and Annuity Association. Under the provisions of that contract in the State's Alternative Benefit Program, it allows it. Their benefit: The individuals who would retire under this proposed legislation would get one year's lump sum payment.

SENATOR WEISS: It's not in a form of a bonus? I'm not trying to ridicule or anything, I just want to know.

MR. GREER: No. It's not. It's part of the legislation because that is typically the way--

SENATOR WEISS: It may be here, but I'm not sure what the genius of it is.

MR. GREER: It's not in addition. It's not a bonus. It's the benefit that would accrue to these individuals because under the TIAA contract that is what's allowed, instead of service credit or other types of credit. It's a onetime, one year lump sum payout.

SENATOR WEISS: And everyone would be eligible for this?

MR. GREER: Only about 25%.

SENATOR WEISS: Is this the program that is a bistate program or something like that?

MR. GREER: No, no. TIAA-CREF is the largest single annuity plan covering education and higher education, globally, indeed. It has assets of approximately \$80 billion. It's the largest singly annuity retirement plan that we know of globally, and only educators may belong to it.

SENATOR WEISS: Well, would you explain to me what the tie-in is with TIAA and the New Jersey system?

MR. GREER: Mr. Chairman, that is the plan that is allowed currently through Pensions. That's the Alternative Benefit Program. If you don't pay into the State system, that's what you pay into.

SENATOR WEISS: Then you're excluded?

MR. GREER: From the State system, you're paying into the TIAA, yes. That's it. About one-quarter of the employees at the State colleges affected are in this program -- who are affected by the bill.

SENATOR WEISS: TIAA?

MR. GREER: Yes. So the problem is that under current IRS standards -- and what happened the last time we did an early retirement bill -- employees could be relatively disadvantaged tax wise if they receive, as the bill would require, this one time lump sum payment. What we're asking is that you consider to help the employees who might retire, and also the institutions who pay under the bill -- not the State -- but the institutions would pay from their budgets.

SENATOR WEISS: Maintenance free, three equal yearly payments.

MR. GREER: Right. Exactly.

SENATOR WEISS: Then where would the money be held?

MR. GREER: The money would have to be held by the institution and paid-- I think contractually, I don't know if the money would actually be held by the institution or held by the Alternative Benefit Plan.

SENATOR WEISS: Well, if they hold by the plan-- If it was held by the individual, then it would be, obviously, a tax.

MR. GREER: Yes, right. We have talked to a number of people. I'm happy that the AFT Council is looking at this, as they should. We'd just like the Committee to consider an option other than this one-year lump sum payout. Perhaps it should be two; perhaps it might be three if you think it's wise, and if lawfully that would stand.

SENATOR WEISS: I think we ought to run that by Pensions. I'm not really sure how that's going to work. The money is paid out by TIAA, whoever they are. Is that correct?

MR. GREER: Yes, but the institutions would have to put the money up. The colleges would, under the legislation--

SENATOR WEISS: Oh, I see. It's the obligation of, let's say in this case, Rutgers, to put up \$30,000 for a \$30,000 salary and then it would be paid out to the recipient at the rate of \$10,000 a year for three years.

MR. GREER: Correct. Since I can't speak for Rutgers let's speak for Kean or another college.

SENATOR WEISS: I just used Rutgers because I saw someone from Rutgers in here before.

MR. GREER: That's correct.

SENATOR WEISS: Besides, they're in my county and Senator Rice's county. So he can talk for them.

SENATOR RICE: No, I can't.

MR. GREER: But that's the essence, Mr. Chairman, you're correct.

SENATOR WEISS: Is there any further cost involved in that procedure, to the State of New Jersey or to the pension?

MR. GREER: Not that I am aware of, no. The cost would be borne by the colleges.

SENATOR WEISS: We're making notes on all of this. It may not look like I'm writing, I am not. (laughter) There are

people making notes. Darryl, you're being taped anyway, so we're going to listen to you again. Are you through with your presentation?

MR. GREER: I am, Mr. Chairman. There are a couple of questions, I think, that Mr. Fernandez and I might address in addition to questions you may have.

SENATOR RICE: I have a question, Mr. Chairman.

SENATOR WEISS: Senator Rice?

SENATOR RICE: This TIAA, you said that's for instructors only?

MR. GREER: It's for educators. One doesn't have to be solely an instructor/professor.

SENATOR RICE: When you say "educators": one who has an education degree or who has been an administrator at an academic institution?

MR. GREER: No, no. One who is employed by an educational institution or a not-for-profit organization representing education. One employed by--

SENATOR RICE: If a person came from the University of California to New Jersey, but they came as an administrator not as a classroom instructor, had no degree in education, would that fit into your scenario?

MR. GREER: Yes. They could participate in this through the Alternative Benefit Plan. And indeed, that's the whole purpose. The purpose of creating this annuity or retirement program for educators nationally, many many decades ago, Senator Rice, was to acknowledge that educators are highly mobile.

SENATOR RICE: See, you're confusing me with the word "educator."

MR. GREER: Educational administrators too.

SENATOR RICE: That's why I raised the question.

MR. GREER: Administrators too, yes. Not just professors but also administrators.

SENATOR RICE: All right. You confused me with your definition. When you say educator-- If a person works at an institution; period. In other words, well, I won't mention UNLV because they took off Seton Hall. I'll mention them anyway. UNLV: If someone worked in the office there and came and worked at Seton Hall, after they beat them, they decided they wanted to come to Seton Hall and work in the office, or didn't work in the office, in your system they could be a part of it? That would include that type of individual?

MR. GREER: Senator, I apologize for the confusion. You're correct, it's my fault. You're absolutely right. Any employee--

SENATOR RICE: That's all right, because that's the way our students are confused. That's why I try to take these occasions to correct those of you who represent education. So it is not just educators, it's also people who work in the arena.

MR. GREER: Correct.

SENATOR RICE: But that number still holds true in terms of the percentage of people that may be affected?

MR. GREER: About 25% of the individuals who might be subsumed under your proposed legislation are in that Alternative Benefit Plan, yes.

SENATOR RICE: Okay, but they all may not be educators. In other words, you're not slipping one in on me. In other words, the category I was talking about is seclusive in that 25%?

MR. GREER: Yes. It's in that 25%, yes.

SENATOR WEISS: Is that it, Senator Rice?

SENATOR RICE: Yes, that's it.

SENATOR LIPMAN: Excuse me, Senator, can I just clarify--

SENATOR WEISS: I'm sorry, I didn't hear you.

SENATOR LIPMAN: I just would like to ask, Mr. Greer, I thought that everybody in the ABP program was an educator, now they're going off. Was it supposed to be for teachers: portable -- you can carry your pension and so forth?

MR. GREER: I'll try to be precise, Mr. Chairman and Senator Lipman. The Alternative Benefit Program allows employees at institutions of higher education and State colleges to make the choice about which plan they go into, and these individuals may choose, regardless of their status within the institution, to use the Alternative Benefit Program.

SENATOR LIPMAN: Right. I'm trying to clarify whether they are teachers, or administrators, or what.

MR. GREER: They may be all of the above.

SENATOR LIPMAN: Oh, I see. Okay.

SENATOR WEISS: Thank you, Senator Lipman. Senator Littell?

SENATOR LITTELL: Mr. Greer, I want to ask you the same question I asked the professor. In the retirement program, the three years since that he said were successful, early retirement produced what kind of savings? Were some of the positions eliminated or were they filled with professors at a lower starting salary?

MR. GREER: Mr. Chairman and Senator Littell, if I may defer to Michael Fernandez. I believe he has the data.

M I C H A E L F E R N A N D E Z: Senator, these are just from recollection, and of course we can get you the actual figures. We're referring, of course, to the early retirement program that only affected tenured faculty. The State paid for those costs. At the State colleges, my recollection is somewhere to the tune of about 120 tenured faculty took advantage of that. Between three-quarters and 80% of those individuals were replaced by faculty, obviously at lower salaries.

It helped our junior faculty, particularly our minority and female faculty members, begin the process of advancing through the academy. The remainder of those positions at that time, in '88, were held in kind of an escrow for future faculty coming into the program. We can certainly get you the figures and numbers on savings.

SENATOR LITTELL: I'd like to have that, thank you.

SENATOR WEISS: Thank you, Senator Littell. Senator Haines?

SENATOR HAINES: Senator Littell asked a couple of questions that I had in mind. Is this beneficial? Do you feel that this is beneficial to these institutions to do this?

MR. GREER: Mr. Chairman, Senator Haines, we definitely believe so for two reasons: We think that individuals who have served the institutions well, if there is a strategic advantage in assisting them in advancing out of the institutions at this time, they certainly should have the option. There is a human resource side to this. Sticking with that, higher education institutions are much more dynamic than they sometimes appear to some of us. And we do need to find opportunities to refresh faculty and staff, as Mr. Fernandez has alluded to.

An opportunity comes with retirements: to bring new faculty on with new types of expertise, new staff of all kinds, if and when they're needed it. One thing that I might point out on the money side, certainly we believe that in the long-term the colleges will save some moneys. The colleges are among some of the more effectively managed institutions in the State. We have at some colleges, such as Montclair, where over 100 positions are already frozen. We have class sizes increasing, and the number of sections going down. Glassboro is another college, where I think roughly there are 90 to 100 positions frozen or not filled, and so on and so forth.

The colleges already have many many positions that should be filled to continue to provide quality education. Unfortunately, given the economic circumstances, they can't. So on the human resource side, in terms of maintaining quality, refreshing the faculty and staff, and also saving money, yes, we think it is a good program.

SENATOR HAINES: One of the things that really bothers me is that faculty can go on for a long time, which is probably good, and they seldom get worn out, I think. I think you may find -- and having served on school boards -- in this kind of thing, when you offer a program like this, that many of your better faculty members will grab the program and go out and get another job. What's to prevent this from happening? In other words you're going to keep-- You may end up keeping the poorer quality teachers and lose the better teachers.

MR. GREER: Senator, all I can say is that we hope not. We can talk about the most relevant experience we've had, which was just a few years ago, in the late '80s when you provided for an early retirement. We think it worked. We think it was used strategically. As others have testified, this is largely an individual decision. It has to be fair to both: the individuals who really provide for the education, mainly the faculty and the support staff who support the academic side of the institution, and to management who is responsible for having a strategic vision for the distinctive mission, for the institution.

It's hard to respond or guarantee to you or members of the Committee that there won't be some good people who may leave. But this is a highly competitive environment, in America higher education. Good people may always leave for more competitive positions or to work with colleagues or peers in another institution. We think New Jersey is still attractive enough -- our colleges are good enough that we think in the long run we'll have good people in the State of New Jersey.

SENATOR HAINES: Well, what's to prevent a person at 50, if you have a shortage in his field-- What's to prevent an individual at 50 from retiring and taking the benefits of this program? Certainly the last speaker indicated that most people at 50 would go out and get another job and teach somewhere else, maybe in Pennsylvania or another state, or maybe even in New Jersey, and you're losing a very highly qualified faculty member. Maybe it's refreshing for him to go to another school, I don't know, but the retirement program is not supposed to be in effect to provide refreshment. It's there for a specific reason.

I think maybe, from what you're saying, from what I've heard, we're subverting the system. We're going around the system and providing income for somebody whose going out and getting a job in another state or another area, and the indications are here that we're going to save \$55 million to put ourselves in debt to the tune of \$400 million to do it.

SENATOR RICE: Mr. Chairman?

SENATOR WEISS: Thank you, Senator Haines. Senator Rice?

SENATOR RICE: I just wanted to extend to Senator Haines, I hear what you're saying, but in the real world in which we live, it's good that this is America. I really think that when we're trying to resolve problems, whether they're economic problems or others, if we can resolve that effectively to benefit the mass of people we represent and by doing so there are benefits or something good that's going to happen to someone else-- I just don't think that we can circumvent the real issue, which is trying to resolve our economic problems and address the real problems of the people.

I can understand what you're saying. If a person moved to another state with all of these high credentials and things like that, that's fine for the person as long as we got (indiscernible) like we're trying to do. You know I always

say, well, the laws of probability say that we won't lose as many people, but I always tell my staff, what if a truck hit me: Do you mean that I can't be replaced?

So I understand what you are saying, but sometimes we can't get around -- I don't know if this is the right phrase -- doing something good for someone or accruing the benefit to someone while we at the same time resolve the problems that we are faced with, on behalf of the mass and majority. And if that's the trade-off, then I have no problem with it. I just don't want it to be looked at too narrowly.

SENATOR WEISS: Thank you, Senator.

SENATOR HAINES: Can I comment to that?

SENATOR WEISS: It's your privilege.

SENATOR HAINES: I understand what you're saying, Senator, and certainly that's very important. We're all concerned about the individual, but I am very very concerned about the status of the pension fund and the integrity of the pension fund. I think all of us in State government are. If this -- as applies to these institutions -- is merely going to provide refreshment for these people, then I don't think that that's the purpose of the early retirement program. I really don't.

I think that maybe we ought to eliminate these institutions from the program if that's what we are doing, and stick strictly to State workers. But then again, I have a problem that I brought up before; that maybe it should apply to everybody within the pension program to keep the integrity of it in tact as far as the IRS is concerned. I think we've got problems both ways on this one.

MR. GREER: Mr. Chairman, if I may, just a quick response to the-- If I understand the concern of Senator Haines, a couple of responses: First, clearly, the purpose of legislation -- I would be presumptuous to begin presuming the legislative motives -- is not only to save money, especially in

an institution of higher education where 88% of all of the moneys that you provide go into teaching and learning, which happens in contacts and through people.

So there is a human side and a strategic side of this because the other thing this Committee buys -- not to be crass, but when you invest in higher education in the State colleges, which are the State's principal baccalaureate resources, you are truly making an investment, an investment in people. And you put trustees and college presidents there to think strategically about how to best provide you and your constituents with quality education. So there are two sides to this issue: saving some money but using precious resources, people, and their intellect and talents strategically. I think that's the way the State colleges would view this bill.

Now there's a-- I don't know. Senator, help me, Mr. Chairman, if I get in trouble. In the last go-around, under the early retirement legislation from 1988, there was a similar concern addressed in allowing the institutions -- and that must be with this Committee -- or others, managers, trustees--

SENATOR WEISS: Are you talking about the autonomy bill?

MR. GREER: No, no, sir. The early retirement legislation from 1988 allowed each college to determine which units or academic departments were in and out of the retirement. I think that Senator Rice has wisely alluded to the issue of equity and fairness. We're not proposing in this bill that we go that route. We think it should be open to the entire campus community.

We think that the morale is high enough at the State colleges that the quality is there. Individuals choose, faculty and senior staff choose, to be in institutions of higher education like we chose to be in New Jersey; because we want to be. In the long-term, we think good people will make good decisions and people who think it's beneficial to them to

leave may do so. The ones who want to stay because they think New Jersey is the place to stay, will stay.

SENATOR WEISS: Thank you. Senator McManimon?

MR. MAXSON: Senator Weiss?

SENATOR WEISS: Yes.

MR. MAXSON: If I could, just to clarify one issue that Senator Haines made: The piece of this proposal, the legislation that deals with the college faculty is not a number that's on your yellow pad, because once the payment is made, no matter if it's in a lump sum, if it's deferred, if the Committee decides to amend the legislation, or if the legislation is amended, there is no additional accrued liabilities. You don't have to worry about that on your yellow pad.

SENATOR HAINES: I appreciate that. That makes me feel a little better. (laughter)

SENATOR WEISS: Thank you. Senator McManimon?

SENATOR McMANIMON: Thank you, Mr. Chairman. I would just like to reemphasize the fact that this legislation is specifically geared for those individuals who already qualify for retirement. I think that we have to keep that in mind -- in that frame of mind -- when we start dealing with these issues. They already qualify for retirement, and we're trying to entice them to retire earlier.

SENATOR WEISS: So that qualification brings us to a point where we don't have to worry about those who will come after that. It's just the current. I see no one else, Darryl, so we want to thank you for your appearance. We do have your paper.

MR. GREER: Thank you very much.

SENATOR WEISS: Thank you. Ms. Susan Cole. Ms. Cole?
S U S A N A. C O L E, Ph.D.: Thank you, Mr. Chairman. Good afternoon, Senators. I'm Dr. Susan Cole, Vice President for University Administration and Personnel from Rutgers, The State University of New Jersey.

Rutgers, The State University of New Jersey is strongly in favor of passage of Senate Bill No. 3358, an incentive program for early retirement. We believe that the proposed early retirement incentive program will have a number of advantages for the University, particularly, in the current climate of budgetary stringency.

A public research university, if it is to continue to serve the State and the nation with the highest quality faculty and educational programs, requires continuing development of established scholarly and scientific efforts and continuing introduction of new program initiatives. As we all know, the creation and acquisition of knowledge and the development and transfer of new technology do not await the development of budgets.

If a university, if Rutgers, New Jersey's University, is to be great and to be able to provide the maximum possible benefit to the citizens it serves, it needs to be able to change and develop, even in times of budgetary stringency. If new resources are scarce, then other measures must be found to enable that critical continuing development. We believe that an early retirement program is perhaps the most effective such measure.

In regard to the University's academic programs, the early retirement program will assist in ensuring a strong University, even under current economic conditions, in two principal ways.

First, the program will permit the replacement of a number of senior professors with carefully recruited excellent junior colleagues. Because of its recent successes and growing national and international reputation, Rutgers is excellently positioned to be able to recruit excellent junior professors who will bring with them the latest advances in knowledge and scientific and scholarly training.

These scholars, at the beginning of their academic careers, will enter the institution at lower academic ranks and salaries than were held by the retirees. Such substitutions, therefore, will ensure the continuing high quality of the University's academic programs, but, at the same time, significantly decrease the cost of the faculty positions.

Second, the program will permit the University to reallocate the positions of retirees to departments with the greatest need for additional faculty resources. This process of reallocation of resources will enable the University to strengthen and to sharpen the focus of those academic programs where growth and development are necessary to the maintenance of quality. Such opportunities for reallocation are difficult to achieve in an institution of higher education in a time of level or even decreasing resources, and the early retirement program will provide that important opportunity.

In regard to the administrative and staff support functions of the University, the early retirement program will permit the University to lower the cost of its administration by substituting senior retiring administrators with strategically located junior replacements and, in some instances, by eliminating administrative positions, and providing, instead, lower cost and critically needed academic support positions; for example, laboratory technicians or clerical support positions for faculty.

In addition, the early retirement program will permit the University to achieve greater administrative efficiency through the reallocation of some of its staff resources, and it will provide a very useful tool to the University in the painful process of making reductions to its operating budget if, as it currently appears, that will be necessary.

In summary, the value of an early retirement program is that it can provide, in a strained budgetary climate, a mechanism to reduce personnel costs while simultaneously having

an invigorating effect upon the institution by permitting the strategic strengthening of important programs, in service to the State.

I'd like to add one note of thanks, if I may, and one point. A note of thanks is to the Director of the Division of Pensions, Margaret McMahon, who has worked very cooperatively with the University in the development of the legislation, who has been tremendously attentive to our needs and to our concerns, and for that we are tremendously grateful.

The note that I would add is, there has been some discussion here about pushing back the effective date for retirement for the ABP, and that, Senator Haines, is where I begin to worry about my yellow pad, because since the institutions will bear the cost of the incentive for the ABP people, if the effective date of retirement is not coincident with the beginning of the fiscal year, that is-- For example, if it is August 1, instead of July 1, the institution will wind up having to pay 13 months worth of salary out of 12 months worth of salary in a given position, since we will have to pay the month of employment plus the years' incentive. So that could be difficult for the institution, especially since in this early retirement program the State is not, as it did last time around, providing subvention for the ABP retirements.

Thank you, and I'd be happy to answer any questions.

SENATOR WEISS: Ms. McMahon, have you got something?

MS. McMAHON: Yes, I have comment, Mr. Chairman and Dr. Cole. My suggestion earlier that the early retirement date be moved up to August 1, still has to stand. However, I point out that July 1, June 1, and May 1, still will be appropriate early retirement dates. I believe that faculty, in choosing a date to retire usually select July 1. It is the end of the academic year. So at the colleges and universities, in fact, the individuals and the faculty could retire July 1, it's just that we are pushing up the date to August 1, for some people too.

SENATOR WEISS: Okay. Could you explain to me what's so magical about these dates, July, August, May, and June?

MS. McMAHON: There is no magic to these dates. What we are trying to do is--

SENATOR WEISS: There must be something.

MS. McMAHON: Originally, when the proposal first surfaced, we had talked about legislation being passed in February, a window being opened March and April, and then a July 1 retirement date. There was only one retirement date in the original discussion. But then there was a discussion about how many people have been hanging around, sort of, waiting for early retirement to happen. These people, it seemed, especially in this budgetary crunch-- To have people who have met all of the criteria, to make them wait until July 1-- So that's why we have put in the earlier dates. But we know at this point in time, if the legislation isn't passed until April, we can't possibly process everything by July 1.

SENATOR WEISS: Could you tell us what drives that?

MS. McMAHON: What drives the processing?

SENATOR WEISS: Yes. What? You can't get it ready by July 1. I can understand that. It's kind of close. Can you get it ready by August 1? I don't understand the 13 months in payments? You have the one month and then they have to pay another year because they're obviously in another payment year -- right?--

MS. McMAHON: There is--

SENATOR WEISS: --because Dr. Cole indicates that if they waited until August, she would have to pay for the next 13 months. Isn't that what you said, Doctor?

DR. COLE: Well, I would have to pay a salary in July, since the fiscal year begins in July I'd have to pay -- in the academic year -- a salary in July and then a year's incentive. So it would equal 13 months of salary.

MS. McMAHON: But, what I'm suggesting is that perhaps the faculty will indeed choose the July 1 date, as they still will be able to do even if we extend the date to August 1. In other words, it's going to be an individual's choice. I realize, certainly, that many State employees will choose the August 1 date as a later date.

SENATOR WEISS: Isn't there a way to adjust this then, adjust the dates?

MS. McMAHON: We are adjusting the dates.

SENATOR WEISS: Let me start at the beginning. Maybe the dates have me in the wrong months, perhaps even in the wrong pew, at this point. Which is the date that you folks prefer?

MS. McMAHON: There are a number of dates. If you look at the--

SENATOR WEISS: I want to know which one do you prefer? I know there are a number of dates. I can count.

MS. McMAHON: Which one I prefer? Probably January of '92. (laughter) Then I wouldn't have to--

SENATOR WEISS: Well, you should have picked January of '90. That's behind us, and we wouldn't have to worry about it. But which one would be really--

MS. McMAHON: Okay, the latest date for early retirement that will be acceptable is August 1.

SENATOR WEISS: Okay.

MS. McMAHON: That's the date I prefer.

SENATOR WEISS: What is the first date that could have it?

MS. McMAHON: The first date-- Even if legislation is passed--

SENATOR WEISS: Even if legislation is passed.

MS. McMAHON: --in the end of April--

SENATOR WEISS: Especially since that's the only way you can get it.

MS. McMAHON: Right. We're going to suggest that it still be retroactive to April 1. This is for people who have filed right now, that we will make it retroactive.

SENATOR WEISS: So, August 1, and everything goes retroactive to April 1?

MS. McMAHON: No, no. Individuals -- and it came up earlier-- There have been individuals who were laid off during the month of March who would be otherwise eligible for this program--

SENATOR WEISS: I appreciate that.

MS. McMAHON: --and from a humane standpoint, they have filed for retirement April 1. So in order to allow these people to be eligible for the incentive, even if the legislation is delayed, we are going to have these people--

SENATOR WEISS: Okay. Then it is retroactive for those folks only?

MS. McMAHON: That's correct.

SENATOR WEISS: Okay. So that's how we get the spread from April 1 to August 1?

MS. McMAHON: Right.

SENATOR WEISS: What problem does the Department have with-- I'm just going to throw out a date, only because I want to complete this thing in my mind. Supposing that it ran until September, what would happen?

MS. McMAHON: Well, I think the problem with having it run even until August was brought out by Director Keevey.

SENATOR WEISS: Just tell me about September. I don't want to hear about all of this.

MS. McMAHON: Okay, until September. The amount of salary savings that's incorporated into this year's budget is based on the fact that \$55 million -- that these people will be off the payroll July 1.

SENATOR WEISS: So that's what drives the revving. The further out you go, the less you save.

MS. McMAHON: Exactly.

SENATOR WEISS: Okay. It took me a long time to get it, but I have it.

DR. COLE: That's exactly what our point is because the further out you go, the less you save; the less money the institution has to pay the incentive with.

SENATOR WEISS: And you're here talking for the institution?

DR. COLE: I'm definitely talking for the institution, yes.

SENATOR WEISS: Okay. Well, no one tells me, and I have to kind of elicit that from whoever is out there talking.

SENATOR RICE: Plus, it depends on the best month to go to Florida.

SENATOR WEISS: I'm back on the train.

SENATOR RICE: Plus, you have to factor in the best month to go to Florida. All teachers come back to work in September.

SENATOR WEISS: Ronnie, I missed that plane.

SENATOR RICE: In September, teachers go back to work.

SENATOR WEISS: I'm hearing, and for whatever reason I'm stuck with it. Senator Lipman?

SENATOR LIPMAN: I just wanted to ask Dr. Cole a short question. For some reason I had the idea that professors with tenure never retired. (laughter) In your presentation, you said that they would be encouraged to take early retirement because you could hire junior professors and so forth. Now my question is, how many professors, could you estimate, do you expect to retire under this?

DR. COLE: It's very difficult to say. Approximately 400 faculty or about 16% of our faculty would be eligible for one or another of the incentives under this program. What do you think Margaret, about 25%?

MS. McMAHON: Twenty-five to 30.

DR. COLE: Twenty-five to 30%. We're guessing.

SENATOR WEISS: What's the total amount--

DR. COLE: The total amount?

SENATOR WEISS: --of professors involved?

DR. COLE: The number?

SENATOR WEISS: Yes. I want to know 25% of--

DR. COLE: The number might be approximately 100 or 125 professors.

SENATOR WEISS: We're talking about 25 to 30 people, 32 people maybe, huh?

DR. COLE: Yes, approximately 100 to 125 professors, we're guessing.

SENATOR RICE: Is that just for Rutgers?

DR. COLE: We will know better shortly because we have provided a lot of information to our employees, and we have asked them to let us know by next week what their intentions are. So we will have some better estimates. But I think about 25% would be in the ballpark.

SENATOR WEISS: Higher Education has 326 employees aged 50, with 25 years or more; 232 at age 60.

SENATOR RICE: Is that just for Rutgers?

DR. COLE: Yes. I'm talking about Rutgers.

SENATOR RICE: Is that all of the Rutgers' campuses?

DR. COLE: The entirety of Rutgers, The State University; all three campuses.

SENATOR RICE: Mr. Chair, through you?

SENATOR WEISS: Go on.

SENATOR RICE: How many professors do you have at all these campuses?

DR. COLE: I beg you pardon?

SENATOR RICE: What's the total number of professors at the campuses?

DR. COLE: Twenty-five hundred. However, that's not the eligible group.

SENATOR RICE: I understand that.

DR. COLE: The eligible group is about 400.

SENATOR RICE: You have a lot of young professors?

DR. COLE: The young professors are good professors.

SENATOR WEISS: Thank you, Senator Rice. Senator Haines?

SENATOR HAINES: The way I figure it out -- I've got my yellow pad out again so we're all in trouble. (laughter) The way I figure it out is, if 100 Rutgers professors retire the first year into the program, how many people are you going to replace out of the 100?

DR. COLE: That's a good question, Senator. We are going to replace, on a full-time basis, very few of them, because of course we will need the salary savings from their retirement in order to pay the incentives. Therefore, the University is going to have to bear the cost of the incentive plus replacement for those instructional activities and other faculty activities that absolutely must be replaced. We will have to keep it to a minimum, and we will have to replace it at the lowest possible cost.

SENATOR HAINES: My figures are that you can't afford to replace any of them the first year. In the second year you'll start to accrue some savings, but the first year your expense will be equal to what it would have been without the program. Is that correct?

DR. COLE: That's correct, if you are looking only at the ABP side of the program. We will have some salary savings from the PERS side of the program, which we could use for replacement purposes, but again, those salary savings will not be great. The replacement needs will be great, so we will have to replace, not with full-time regular faculty in the first year but probably with temporary, part-time faculty, to hit the important academic needs.

SENATOR HAINES: So this is not a savings program for the first year?

DR. COLE: It is a long-term savings program. It is a long-term institutional adjustment.

SENATOR HAINES: Long-term, and a refreshment program, but not really a savings program in the first year.

DR. COLE: That's right.

SENATOR HAINES: Thank you very much.

SENATOR WEISS: Thank you, Senator Haines. If you'll indulge me on one comment, it would seem to me like you're going to let a number of people go, and you're going to replace them with a number of people not yet determined? But the expenses of that-- The costs that you gave up with the group that you let go, are now going to be allocated to those who are coming on board. It sounds to me, without having to look at all of the numbers, that we're talking about an even swap.

DR. COLE: Not exactly, because on the administrative side of the institution, we will forego filling a number of positions that will prevent layoffs on that side of the institution, and we will use those salary savings to cope with what looks like something in the neighborhood of an 8% budget reduction. It will not be a one for one total replacement across the institution. Unfortunately, the budget won't permit that.

SENATOR WEISS: I think I understand that. The part that I got a little vague on is you're going to-- Let me put it another way. You're going to have now 25 people; you let 100 go. Those 25 people are not going to be able to do everything that the other 75 did, or 100 did. Right? They're going to be able to do one-quarter of it. Am I right? I mean, they can't teach any more classes. Whatever your class size is, 25 professors will take care of 25 average size classes. Is that not right?

DR. COLE: On the academic side of the institution, yes, we will have to provide some replacement.

SENATOR WEISS: Well, where do they go, except the academic side?

DR. COLE: Some of the retirements will be on the administrative and staff support side. There, in some instances, we will not replace. We will use those reductions, those early retirements, instead of layoffs, to meet what appears to be something in the neighborhood of an 8% budget reduction.

SENATOR WEISS: Are there any other questions?

SENATOR RICE: Mr. Chairman?

SENATOR WEISS: Senator Rice? Senator Littell?

SENATOR RICE: Yes. Let me just add something. I hear the conversation. We have an immediate need and an immediate problem. The State has that problem. And it's known as an economic one; the deficit. We're starting to sit here and think about the immediate problem and an immediate resolution. We've got to start thinking about how to address a problem immediately, but also look long-term.

Now I agree with Senator Haines, that we don't want to make a mistake down the way and look back in six years and say we made a mistake. I do think we have to know what it's going to be like six years down the road. In this situation, what I hear is that, the bottom-line may kind of balance and take care of itself with some minor positive sides for the University, but long-range they're going to be in better shape. Hopefully, we'll be in better shape. I think that's important to know.

I would have to assume -- and maybe I shouldn't assume, let me ask the question. Are some of those professors who spent time instructing but also time -- maybe -- applying for grants and things of that nature, a function that may be able to be picked up someplace else within your grant area?

DR. COLE: Yes, some of the professors will have duties other than instructional: research--

SENATOR RICE: So technically, some of the people you're talking about bringing on, on a temporary basis, you're really talking about some adjunct type professors who will come on and may not have to necessarily pick up some of the applications for different types of grants and things, that can be handled someplace else in the University? Is that correct?

DR. COLE: That's right. They would be short-term replacements to fill the most urgent instructional needs.

SENATOR RICE: Right. Then the point I'm making, Mr. Chairman, is that we need to understand how some of the institutions operate, before we think they're duping us. I don't boast about Rutgers that much, even though I'm an alumnus, but I do know how they function. And we've got to start to think long-term as well as short-term and intermediate. I just wanted to say that.

SENATOR WEISS: Thank you very much, Senator Rice. Senator Littell?

SENATOR LITTELL: Dr. Cole, along that line, are these teaching professors or research professors that you're talking about? Out of the 400?

DR. COLE: Those who may retire?

SENATOR LITTELL: Yes.

DR. COLE: The bulk of our faculty are teaching/research faculty. That is, they have responsibilities in both areas. In fact, they have responsibilities in three areas: teaching, research, and service to the State and the nation.

SENATOR LITTELL: Well, if they're teaching professors, how are you going to not replace them?

DR. COLE: The answer to that is, that we will replace the instruction that is critical. For example, courses that freshman and sophomores need to take to graduate, to fulfill requirements, have got to be replaced. A specialized seminar, we may be able not to offer one year, and offer it next year.

So an assessment will have to be made about the instructional responsibilities, as soon as we know which professors will retire. Then we will have to utilize the salary savings from the PERS retirement in order to make strategic and critical replacement at the lowest possible cost, maintaining quality in the areas where the instruction must be replaced.

In addition, faculty have begun already to increase their own teaching responsibilities. Class sizes are growing larger. I mean, we are having the same difficulties that you know about in terms of dealing with a reduced budget situation. This simply is one tool, the early retirement program. As we see it, it is one tool to help us make budgetary reductions and retain quality, looking at the institution beyond a single year, but into next year, and the year after, and the year after. Some replacements won't be made on a permanent basis until two, or three, or four years -- possibly, out.

SENATOR HAINES: So you won't be asking for any more money? This will take care of your 8% budget cut? (laughter)

DR. COLE: I will never promise not to ask for more money.

SENATOR HAINES: Is Professor Genovese gone? You're not old enough to remember him, maybe?

SENATOR WEISS: That's for another day. Thank you, all of those who participated. Thank you very much.

DR. COLE: Thank you very much.

SENATOR HAINES: Just a short question, and that is, of your 50-year-olds that retire-- I'm just afraid -- and maybe this is a statement rather than a question -- you're going to lose the best of them, and some of the ones that are not the best are going to stay.

DR. COLE: I'll tell you why I think that isn't so, if you'd like. Rutgers has, as I'm sure you know, become an extraordinary fine institution -- perhaps I should not say so

-- and many of our faculty-- Our best faculty are extremely competitive. They can leave the institution today if they wish. There are plenty of other fine universities who are soliciting our best faculty all of the time, and offering them bigger laboratories, more research assistants, and so forth. If they want to leave Rutgers, they do not have to wait for an early retirement program to do so.

Our experience with the last early retirement program was that we did not lose our best faculty through that program. The people who left the program were generally those faculty who were getting ready to retire in any event. And I think it has been stressed here today, that these are people already eligible for retirement.

The average retirement age at Rutgers is about 65. I think that the early retirement will drop that a year or two, but not extravagantly. And those people who will take advantage of it are simply people who were going to retire in the next five years anyway.

SENATOR HAINES: Thank you.

SENATOR WEISS: Thank you, Senator Haines. Thank you, Dr. Cole. The next on, are Mr. William Dressel and Mr. Neely. I thank you for splitting your time. That's the penalty, Bill, for bringing company.

W I L L I A M G. D R E S S E L, JR.: He was on the calendar. Technically, we have 20 minutes, but we'll try to be brief, Mr. Chairman.

SENATOR WEISS: Well, you're fantastic.

MR. DRESSEL: Thank you very much for the opportunity to appear before you. My name is Bill Dressel. I'm the Assistant Executive Director of the State League of Municipalities. Lou Neely, Finance Director for East Brunswick Township and Chairman of the League's Pension Study Committee, joins me.

In recent weeks a number of our member communities have expressed interest over the proposed early retirement incentives for State members of the Public Employee Retirement System, as set forth in S-3358.

A similar initiative would be attractive to some municipal employees as a possible option and an alternative to layoffs. If staff reductions or overall cost reductions could be realized through retirement incentives, it would permit mobility within the ranks. Some longer-term employees could elect to exercise this option. That would lead to lower costs associated with the benefits and salary levels. This request is not unlike the request made by higher education institutions to retire some tenured professors.

Finally, one must evaluate the cost of unemployment benefits versus those associated with early retirement incentives, and the overall impact on staff. A number of municipalities may select the incentives, if permitted through State legislation. Again, I must emphasize that the League of Municipalities is looking for permissive legislation. We believe that this should be done on a very permissive basis.

Mr. Neely, who will follow me, has a detailed proposal. I believe it would be impossible to cover this in the kind of detail that it deserves, here today. However, we will try to give you highlights, and the materials that you have before you do get into the specifics of Mr. Neely's proposal. At this time, Mr. Neely.

L. M A S O N N E E L Y: Mr. Chairman and Committee members, thank you. This kind of reminds me of the little girl who came home crying, and she was late. Her parents said, "Gee, Sally, where have you been?" Sally said, "I was over at Jane's house." They said, "Well, what happened?" She said, "Jane's doll broke." They said, "Well, did you help Jane fix her doll?" She said, "No, I just helped her cry." As I heard you talk about this program, I almost wanted to cry with you.

SENATOR WEISS: Be useful with your time. (laughter)

MR. NEELY: You see, you refer to it as an early retirement program, and the Director of Pensions said it's not an early retirement program: There's nothing early about it. Everyone's qualified. Senator McManimon said, "They're already qualified to retire." The question is incentives. And we're proposing both an early retirement and an incentive program as a management tool that's available to good government. Dr. Cole said, "This is a management tool that should be available." The tool is cost-effective. It allows you to take people who, for any number of reasons, may wish or you may wish to see them removed.

I hope that the conversation that I heard earlier today is not correct, that you're giving people layoff notices on one hand, and saying on the other hand here is an incentive. Because if you are, you're violating their civil rights. There's a layoff position that you could do--

SENATOR WEISS: This Legislature, Mr. Neely--

MR. NEELY: --it would not do that.

SENATOR WEISS: It doesn't. We're not empowered to do that.

MR. NEELY: But what you might do is to say that this incentive and early retirement program is an option that's available and individually chosen. The individual may determine, based on what's available or what's best for them, and if it's open to local government -- which I hope it will be -- they will determine, as a local government unit, what's best for them. I think it is a good management tool.

Along those lines, it's almost an insult when the Director of Pensions says, "Gee, we don't administratively have the ability to handle local government until next year," recognizing that well two-thirds of the total membership is local government; which means that we pay two-thirds of the total costs to the Division of Pensions, and we are the biggest

taxpayer to fund that Department. Yet, we're getting short shrift. What it tells me is that the State budget crisis is driving what should be a good management tool.

As long as we are two-thirds of the total membership of Public Employees Retirement System, and as long as those cost are apportioned back based upon membership, then we ought to have an equal opportunity to have this extended to us at the same time as you extend it to other State employees; as a management tool, not as a budget crisis solving instrument; as a onetime place. My report, which I've given you, I think tries to deal with that.

Now, along those same lines, it becomes an accrued liability that each individual town can chose to pick up, just as the State can chose to pick up. I think that the Pension Director has adequately described what that accrued liability is, and how it will grow over time. And if you measure that against what type of productivity changes or reorganizations one wishes to make, we think that it is a good tool. It should be available to local government, and with that I will say:

1) In lieu of staff reductions, it helps for reorganizations.

2) It ought to be both an early retirement and an incentive program.

3) It's clear for the last number of years that there's been discrimination with regards to veterans' benefits, for teachers' pension annuity, and for other programs that have not been addressed with the Public Employees Retirement System, that ought to be done.

4) The window that one looks at is a window of opportunity, both for time, a window of opportunity for qualification, and a window of opportunity for future savings.

We ought to look at all of those windows. I think that the draft legislation you have if amended to consider local governments, would be a wonderful tool to do that. I

think that it can be accomplished within a reasonable period of time and not wait until January 1992. With that, and because of your time constraints, I will rest. Thank you.

SENATOR LIPMAN: That was very good.

SENATOR WEISS: Thank you, Mr. Neely. You did a lot of quick reading or a lot of rehearsing. (laughter) Either way I have to compliment you.

SENATOR RICE: Mr. Chairman?

SENATOR WEISS: Senator Rice?

SENATOR RICE: Let me just say, since I represent local government, that with all due respect to Mr. Neely, as related to the Pension Director is that, there maybe some uniqueness about local government as related to the State, and there may be some variables we have to look at.

Now I'm attempting to do legislation for local government, and I've asked OLS and its staff to make certain that if there are some differences when they work with the Pension, that those differences get clarified. I don't think we have to wait until 1992, if in fact we do the proper research and get the proper information. If the data -- the proper data -- is not available, then that's going to delay it. But those of us in local government do have an interest. We are looking. And if need be -- as we talk about downsizing -- we'll cut off the downsizing and make sure there are enough bodies left over there to help up with that office.

But I just want to indicate that, the Director of Pensions did indicate that they'd be willing to look at legislation, but there maybe some adjustments that may have to be made because they're unique to local government, and they're unique to counties and colleges. It's a little different than the State. And I can understand that uniqueness. So the research, hopefully, will be done. Hopefully, a bill will be prepared, and hopefully, we'll get cooperation. Hopefully, whatever the process is to expedite that-- If government is

serious about helping municipalities in the State, then we'll find a way to get ahead of that deadline.

But this piece that Senator McManimon is talking about today is legislation, that I understand, cannot be delayed, because it becomes fruitless if you wait too long. The idea is to have some benefits. The legislation needs to benefit us in the State. If we're going to just delay this particular piece because we can't iron out the local piece that we need to be doing, then we're going to wind up losing. Why don't we just take this and tear it up?

I'm concerned about folks not being laid off, minimizing those numbers as best we can just as I am concerned about the local side. So no one here can debate me on local government. I've been here for eight years. You know me, I take on the mayors like I take on governors, because I'm a real person. But we are going to work on some things. We'll try to expedite it. And you can talk to Glenn Moore and them, and help input it, fine. But they're working on something.

MR. NEELY: Can I say, that there's no lack of data, and there's no lack of statistics. There's only about three different variables that open this. And the question is, do you open the window of opportunity for the State up until July 1, and then say in the same piece of legislation that the window is open for local government, say from August 1, through October, or what have you?

The variables that differ between State and local government for PERS are minor. There's no lack of data. There's no lack of ability to research that data and to have a expeditious answer. That can be done within a very short period of time. If someone is telling you that we're so pressed, and we're so busy that we can't do it, I say that that's wrong, because the actual tables are available. There's a good history of employee data which goes back 50 years. And we have the data in an automated format that can be answered.

This bill should be amended to include everybody. It shouldn't be discriminatory, when you adopt this bill. I agree that there should not be a delay, and we're willing to work with you not to have a delay.

This bill is critical to the State. It's equally important to local government.

SENATOR RICE: Mr. Chairman, through you, my last comment is that, I'm saying, I don't disagree with you. What I am saying is that, I work and live in local government. I want to make sure that whatever we do, if we can do it through this legislation, fine. If the State, and Senator McManimon say it can't be done, you'd have to expedite some other legislation, I'm willing to do that. See I've got to inspect the \$22 tax base coming up, not you. I've got to make a decision to lay those folks off, not the mayor.

The mayor may present it, but I've got to vote, so I don't want to have to eat it, okay? I have a personal interest in this legislation, the time frame. But by the same token, I'm not going to hurt State workers at the expense of not being able to do, even in a timely fashion in a time that we think it should be, for local workers. I'm trying to get the best of both worlds. That's all I am saying to you.

MR. NEELY: I appreciate that.

SENATOR RICE: And it's the process, I think, that-- I heard Senator Weiss raised the question, what is this process with these time frames? I think it's the process more than the legislation, and that's what we're trying to get fixed in our mind: Can we do these things simultaneously, or can we make them work some kind of way together? So I just wanted to say that, Mr. Chairman. I don't want the League of Municipalities to ever come in here and forget that I represent local government. Even on the national level, I think we should give more from the State to local government in terms of authority.

MR. NEELY: Mr. Chairman?

SENATOR WEISS: Thank you, Senator. I have someone that wants to speak, the sponsor, Senator McManimon.

SENATOR McMANIMON: Thank you, Mr. Chairman. In my earlier statement, I had made the statement that I thought that we'd have to adopt permissive legislation to accommodate, not only municipal but county government as well, plus those separate entities of government that are a autonomous body, such as boards of educations, that have PERS people working for them who are not necessarily affiliated with the teachers' pension structure. However, I think everyone in this chamber knows that the normal attrition is usually about 6000 to 7000 retirees a year; somewhere around that figure.

MS. McMAHON: Seventy-five hundred.

SENATOR McMANIMON: Seventy-five hundred. If you were to file for pension right now, the time element it takes to process-- We're talking about coming in and running a norm, and at the same time coming in with additional applications. There is a time element involved here. Most people say all right, I'm given an ultimatum on a time date here, July 1, August 1. Next question is, these people are going to ask, "When do we get our first check?" Now when they file, are they going to have to wait four months afterwards? There are some people who live month to month.

It's a lot more work here than meets the eye. I think we have to face this reality. I feel -- and I've said to Mr. Dressel in all sincerity -- that I thought there had to be a gap between the handling of states and coming with the municipalities and the counties.

MR. NEELY: We endorse that.

SENATOR McMANIMON: If the intent here was to include it within this structure, but also projecting a time element as to when you can approach the processing, that may warrant for serious consideration.

MR. NEELY: Senator, I'm sorry I wasn't clear. I suggested that the legislation be adopted, that the window for local government not be coterminous with the window for the State; simply put, the window for local government four months later or five months later. Deal with the State. Deal with the administrative problem that we have. And as soon as that is over, deal with the local government problem. But don't wait until 1992. I think that's too long a period of time.

This proposed legislation simply says, that in the bill you have, the details can be worked out; simply make the window of opportunity for the State whatever you select. If it is August 1 or July 1, whatever date you select for the State, then make the next window of opportunity for local government. Simply, let the window be known, and that can calm down a lot of the administrative work, because the local government, during the period while they are processing the State, will have evaluated their work force and will know exactly where it is. That's all we're saying. Deal with one piece of legislation. Deal with different windows of opportunity. I think we're saying the same thing.

SENATOR McMANIMON: Well, we've got to get into a whole fiscal note structure. I'm sorry, Mr. Chairman.

SENATOR WEISS: That's okay, you're the sponsor.

SENATOR McMANIMON: We have to go into a whole new fiscal note structure. We have to get an analysis on that for the municipal level, as well as for the county level.

MR. NEELY: You're precisely right.

SENATOR McMANIMON: We have already got it here on the State level. I just would not want to see this bill, particularly, be held in abeyance until all of this is accomplished. I'd rather see us go forward on this; I'm prepared. I've already spoken to Mr. Dressel. I have a rewrite of my initial legislation to encompass the municipal government. I am concerned in respect to the time element.

I'm also concerned with what originally came out of administration. They have recommended this and we're following through on this. I think basically for us to encompass the whole ball of wax at one time, maybe would be reaching out too far.

SENATOR WEISS: Thank you very much. Robert, you're next.

SENATOR MENENDEZ: Thank you, Mr. Chairman. I recognize Senator McManimon's concern, and I certainly don't want my comments to be construed as seeking to delay anything that he wants to do. I think what he's trying to do is very important, but as someone, Mr. Chairman, who wears another hat as mayor who just laid off 15% -- not 10% of his work force, but 15% -- of his work force, December 31.

I want you to know that this is a more than viable management tool to make some intelligent and rational decisions, instead of those that I personally had to make. I think, particularly, one of the issues that I think Mr. Neely is talking about is, when we're looking at this other issue of changing the fiscal year for many municipalities-- If we, too, are to receive the benefits in this next fiscal year, of the savings that can be effectuated -- which is one of the driving issues; as it is for the State, so, it becomes for the municipalities.

I think what we here -- and I'm wondering, Mr. Chairman, if we can extract something from Pensions -- is can we not seek a briefer time period than that which you projected into January, even if it is through a different piece of legislation? And changes for municipalities: The time period puts it outside of your concern of July and August but gives it to us before next January. There are many municipalities, Mr. Chairman, right now who are considering laying off significant number of municipal employees. The fact of the matter is that this would be an excellent opportunity to take advantage of that.

MR. NEELY: And I think they could do the fiscal note for you right now. It's zero cost to the State. All of the cost for Pensions are paid for by local government. The local mayor should make that decision. The fiscal note would be depended upon the local unit, and the local mayor and council would make that decision. So the fiscal note for the State is zero. The opportunity for the local mayor and council to make a choice is very great, and that's why time is important.

SENATOR WEISS: Why don't we ask the Department what they think, since they are crucial in this?

MS. McMAHON: Mr. Chairman, I wanted to make a comment, and perhaps this would be somewhat of a compromising position. When we talk about the window of opportunity, sometimes that's deemed as the period of time that people are making their decision. When I suggested the January 1 date-- Let me compare it to the August 1 date. That is, when I talked about extending the date until August 1, there would still be a July 1, May 1, and a June 1, retirement date that would be appropriate. So what I might suggest that would work for the locals is when the legislation is drafted, that January 1 be the latest early retirement date, but that a December, November, and perhaps an October date would also be dates that people could retire.

MR. NEELY: That's precisely what we've suggested; that you have an outside date of that time, but you begin the ability to do it after you've closed out your period. We don't want them to overlap. We simply said, once the State -- once you select your date, your window of opportunity-- If you close the window, then simply open the window for local governments and then there would be an outside date. I had suggested the outside date be November, but if you want to extend it to January, that's fine.

It doesn't matter to me how far you extend the opportunity, but just don't keep the window shut during that

year, because a number of local mayors and councils really want to have that opportunity. It's their fiscal decision because it costs the State nothing. Then they can make that determination on an actuarial basis: Is it worth taking some of those employees, reducing the force, and having this as a management tool that's available?

SENATOR WEISS: It doesn't appear to me that the window is shut. The date of October and January have been mentioned, so it's obviously going to be open until one of those dates. I think that the Department could work that out with the sponsor to everyone's satisfaction.

SENATOR McMANIMON: Mr. Chairman?

SENATOR WEISS: Yes.

SENATOR McMANIMON: I have no problem working that out with the Division of Pensions, because in my initial statement, I said, that this was going to have to be permissive legislation, because county and municipal pay their own, straight up-front. My only concern was that whether the Division of Pensions would be able to handle it, because we really don't know what type of participation we have-- We're estimating what our participation is going to be. The next question is, like I said earlier, some people want to know how long they're going to have to wait for their first check? There are people who live from month to month, and if they say they're going to retire July 1, they're going to think they are going to get their check in September. Are they going to get it in September or are they going to have to wait four months?

MR. NEELY: Those are very practical. I think that the numbers, the evaluation report is here. We know pretty much what the magnitude of universe that's available is. I've taken those numbers so that we know. When you spread those over 567 municipalities, and the 21 counties, and approximately 100 authorities, it becomes a lot of small decisions made by mayors such as Mayor Menendez.

SENATOR WEISS: It appears to me that you've made your point. At the risk of one more question, I'm really not sure where we're going to wind up. Senator Littell?

SENATOR LITTELL: Mr. Neely, I just want to say, I don't think it is fair and justifiable to criticize the sponsors, Senator McManimon or the Director. This bill is here for the first hearing, today:

1) The Governor asked for it;

2) The Governor has proposed to take \$55 million or \$56 million out of his budget in the salary account to compensate for the change.

I represent about 48 municipalities in Sussex and in Warren County. I have yet to have a mayor or a councilman ask me if this early retirement program, or incentive program could be applied to the municipal governing bodies so that they could reduce their forces. So, I don't think that the League of Municipalities has done much to sell it amongst your members, because nobody's talking to me about it.

MR. NEELY: I'm sorry. First of all, let me not take it as a criticism. We've not been critical of it. We think it is a good bill. We think it is a good piece of legislation the Governor's introduced. We think the sponsor has done the right thing. We think the Division of Pensions put out the correct numbers. All I was saying, is that of the total cost to the Division of Pensions, local governments pay two-thirds of it, and a number of them have talked to me. I'm sorry that they haven't talked to you, Senator, but we want to make sure that they do talk to you. You will get some calls. (laughter) I think you can count on it.

SENATOR WEISS: He was worried.

MR. NEELY: And along those lines, we simply said that because we're looking at the magnitude of these dollars-- When the State has got \$56 million that they can sell -- we're two-thirds that number, we're twice as big -- then it might be

\$100 million that local government can save. If local government can save \$100 million, well, we are right on -- Johnny on the spot. So we're not being critical one bit.

We appreciate-- The sponsor has been very open with us, and he did say that. All I'm saying is that with some slight technical amendments to this bill, we can accomplish a whole ball of wax, go home, and not have to have an extended period of hearing, because it's really when the processing date is placed, not the concept. Everyone has said, "Good concept." We agree that it is a good concept and a good management tool. Let's just put in on paper, and then the time frames are all we're talking about, not concepts. And we appreciate the sponsor.

SENATOR LITTELL: Well, let me invite you up to Sussex and Warren County to the League of Municipalities meeting to explain your program to them, so that they can hear from you first hand and ask you questions. I know that they are looking for a program.

MR. NEELY: You got one.

MR. DRESSEL: We would welcome that opportunity.

SENATOR WEISS: It's going to get lonesome up there at Great Gorge. (laughter) I've got to get moving here, because they're going to close the State House, and we'll be locked in here, and there's no food or anything.

SENATOR RICE: Mr. Chairman, before you close?

SENATOR WEISS: Senator Rice?

SENATOR RICE: I still need some clarity. First of all, let me just say to Senator Littell, we're talking about permissive enabling legislation. So your 48 municipalities, which I know aren't as big as mine, may not even want it. That's why we are saying, "enabling or permissive." But, the clarity, Mr. Chairman, through you, is I've asked OLS to prepare legislation for local government. The hue and cry of the municipalities is to try to go through that tedious process

unnecessarily, but to amend the legislation here to do what it is we want done. We've discussed that there maybe a way of doing that, but no one has given the bottom-line.

I'd like to leave here knowing that it's going to be either or. Are we going to try to work out the opportunity, and work it into this particular legislation or do a separate piece, but at least know what the movement is when we leave here.

SENATOR WEISS: Senator Rice, my understanding is that there's going to be another piece of legislation, sponsored by Senator McManimon, to take care of the municipal problems that we're just laying on the table.

SENATOR McMANIMON: I'd rather do it that way.

SENATOR RICE: Well, in any event, I've asked for legislation, too. I don't have a problem taking the backseat to that. I just would hope that he would expedite it, so we can parallel the legislation. I think that is what is important.

SENATOR WEISS: We'll light a fire under McManimon.

SENATOR McMANIMON: I will see that Pensions will try to work that out, and take it from there.

SENATOR RICE: He said, he will expedite it, and he's my friend. If he says it's going to be done, it's going to be done.

SENATOR WEISS: If you try hard, he'll be able to make you a close contact.

SENATOR RICE: I don't need to cosponsor. I've got to make a decision on the layoffs at 22. I just need the legislation.

SENATOR WEISS: Oh, okay. Thank you.

SENATOR HAINES: I'm glad they turned the lights out, I was getting a little sunburned.

SENATOR WEISS: I think there's a hint in that, and I have about six more people to go.

MR. DRESSEL: Thank you.

SENATOR WEISS: Unless they come in pairs.

Ms. Lordi? Lordi or Lordy?

V I O L A S. L O R D I: Lordi.

SENATOR WEISS: Lordi.

MS. LORDI: Mr. Chairman, Senators, I won't take much time at all, I promise.

SENATOR WEISS: Okay.

MS. LORDI: I'm here from the City of Newark. I represent approximately 1100 employees.

SENATOR WEISS: Gentlemen, can we keep it down a bit please? (referring to conversations among Committee members) Thank you.

MS. LORDI: I am here from the Newark Council No. 21. I represent approximately 1100 white-collar employees for the City of Newark, and I'm also here as an Assistant to the Business Administrator for the City of Newark, who are in support of this legislation.

The purpose of Senate Bill No. 3358 is to offer eligible State employees a onetime only retirement incentive in anticipation of reducing the State work force through greater reliance on attrition measures rather than on layoffs.

The administration of the City of Newark and Newark Council No. 21 are asking to have the bill amended to include PERS members who are employed by the City of Newark. I know this has been gone over many time today, but I just wanted to reiterate.

Public employers at the local level are also faced with budget constraints that inevitably will lead to layoffs. If amended, the legislation effectively will increase our attrition rate, and thereby, lessen the possibility of layoffs, or at a minimum, reduce the number of layoffs.

We have approximately 300 employees who are eligible to retire. Of this amount, I would say, approximately, half

would not retire -- possibly less -- because they do not have the age, and it would be detrimental to them to retire at this time.

The Newark City Council -- I have been told, and I'm sure Senator Rice knows -- is in the process of preparing a resolution in support of this legislation, as well. We, therefore, urge you to amend this legislation to extend the eligibility for the benefit to include the employees of the City of Newark and, thereby, set aside any cries of discrimination, which we have been hearing -- because we do feel that we are being discriminated against by being excluded from this bill.

I won't take any more of your time. I thank you for listening.

SENATOR WEISS: Thank you very much. Are there any questions? Senator Lipman?

SENATOR LIPMAN: Ms. Lordi, I know that you heard all of that big discussion, so you can be sure that something is going to be done.

MS. LORDI: Thank you.

SENATOR WEISS: Thank you for coming down. Sorry we held you so long, but it becomes fate when you come down here.

SENATOR RICE: And we can't even pay her overtime, because of the budget problem.

SENATOR McMANIMON: Take some of those cars away up there. (laughter)

SENATOR WEISS: Ms. McMichael? Kathy McMichael?

KATHRYN McMICHAEL: Senator, we're going to come up as a team if that's okay with you, and save you some time.

SENATOR WEISS: That's okay for me, as long as you don't make it 10, 20, 30 minutes. And we promise to listen intently.

MS. McMICHAEL: Thank you. I'm Kathy McMichael--

SENATOR WEISS: And we'll listen even better if I can get my Committee to calm down a bit. I know they're tired. I should have given them a break, but, such is life.

MS. McMICHAEL: I'm Kathy McMichael, New Jersey School Boards Association.

DEBRA J. COSGROVE, ESQ.: I'm Debbie Cosgrove, from the New Jersey Principals and Supervisors Association.

MELISSA V. KIRSCH, ESQ.: I'm Melissa Kirsch, from the New Jersey Association of School Administrators.

MS. McMICHAEL: Let me begin, Senator, with a discussion of Senator McManimon's bill. Of course, Senate Bill No. 3358 does not apply to local boards of education, administrators, or principals, but we have been invited, by Senator Weiss -- by yourself and by Senator McManimon to testify at this hearing, and we're very pleased to be here.

We like the concept. The New Jersey School Boards Association likes the concept of an early retirement incentive plan, as a cost savings method.

SENATOR WEISS: Kathy, will you be kind enough to pull that microphone to you?

MS. McMICHAEL: Oh, of course, sir. We like the concept. The New Jersey School Boards Association likes the concept of the early retirement incentive plan as a cost savings method, but we have concerns with the implementation of a similar bill on the local districts.

The New Jersey School Boards Association policy states that it opposes any changes in the pension system unless a source of funding is clearly identified. And it expresses concern for the long-term implications on the pension system and the local taxpayer. Our policy speaks to an early retirement renumeration plan, which would be paid as extra compensation and not contractual salary to employees, a bonus type of system which would not interfere with the pension system, and thus, would avoid long-range negative effects.

Currently, we see that you are looking at extending the current bill language to local municipalities. Well, we desire not to be an obstacle to this idea. We must advise the Committee that we have concerns about the PERS employer contribution rate. We recognize that in order to achieve the onetime savings by encouraging early retirement of State employees, the State will need to increase the employer contribution rate in PERS by 3.8% for 27 years.

We realize that there are two separate rates established in the PERS system, and that under the current bill, only the State rate would be raised. However, if there is a similar bill proposed for the local PERS employees, there would have to be an increase in the employer contribution rate.

Boards of education have many noncertified employees: janitors, engineers, firemen, and custodians, who are enrolled in the PERS system. And the boards currently pay the employer rate. These are employees who are critical to the operation of running a school district, but by encouraging early retirement of these PERS employees, it will not save the district, because these are among the lowest paid in the system, and they also would need to be replaced.

We understand the concept of the bill is to reduce State government costs by encouraging employees with a number of years of service and age, to retire early and not be replaced. Our boards of education are faced with similar fiscal constraints and budget problems during this current year. But we cannot apply the same concept of a onetime early out to the local school system, because we anticipate a large number of positions would have to be replaced. Plus, there would be additional associated benefit costs in future years to the boards.

It is much too early to evaluate the appropriateness of including TPAF employees in such legislation. This is the first time that local districts will know what their

obligations are for pension and Social Security costs. In addition, without further legislative action, State aid for pension and Social Security costs will end after the 1992-93 school year. Then local district will have to pay these costs out of local taxes, not out of State aid.

Because this area is new to the New Jersey School Boards Association, our data base is extremely limited. We are currently discussing with a pension consultant, what type of information needs to be gathered in order to come out with an appropriate resolution to this issue.

In summary, we have major concerns with the local PERS employer contribution rate, and would ask that if the Committee is planning to structure a bill for local municipalities that they find a way that would not affect the board of education payments.

Secondly, we must stress the difference in approach to an early retirement plan by boards of education. Our concept is to allow boards to fill critical positions at a lower salary rate. We are examining various options and searching for a solution which possibly would give permissive legislation to our boards to negotiate early retirement incentive plans.

We are encouraged that the Committee has invited us to testify, and that you are looking at this concept for local public employees. But, there are many questions that need to be answered, and the bottom-line is, what will the fiscal impact be on the taxpayer and on the integrity of the pension system?

Thank you very much, Mr. Chairman.

SENATOR WEISS: Thank you very much. Senator?

SENATOR MENENDEZ: Thank you, Mr. Chairman. Ms. McMichael, let me just ask you though, isn't it a fact -- I've been talking to my local school board-- I feel like I've been taken all of the share of burden and they haven't had any cuts. And they keep getting more money, and keep raising their

budget. Isn't it a fact that you have -- meaning the school boards -- high salaried teachers, certainly, at ages that would be, again, individuals who are already retireable and this incentive would move them out of very significantly high salaries -- especially if they've done anything in terms of degree levels on the other side of the scale -- and move in teachers with minimum degree levels in most cases BAs with very little experience, and very substantially different salaries, and produce some very significant savings to you as well as -- if we listen to the teachers' union -- deal with some burn-out issues?

MS. McMICHAEL: Short-term, Senator, that looks like it would be correct. We're looking at that as a viable retirement plan. But what would happen to the TPAF system down the line? What would happen with these teachers who would have additional benefit costs that would have to play out for 20, 30, or 40 years? What would happen to the management, to the boards of education, when they would have to pay that? The local board, the current board, would be in good shape, but then what would we have down the line?

We have to look at the long-term implications, sir. And that's what we are-- We are not discounting this plan at all. We're looking at this as a cost savings method, but it would have to not be the way your plan is, with no replacements, because the kids need the education. You have to replace with another teacher. You can't just say, the classroom is going to go empty. It's a completely different concept than you have in Senator McManimon's bill. We would have to look at additional -- legislation -- permissive legislation that would incorporate that kind of a plan into it.

SENATOR MENENDEZ: Well, Mr. Chairman, through you. I understand that. I have teachers, teaching in classrooms making \$60,000 -- just as a classroom teacher -- or beyond, and entry level salaries in the 20s. That's one-third of what they

are paying, multiplied over a period time, even with their graduated increases, and assuming they would move up in the salary degree levels. Then if you look at that PERS system where many of your noninstructional employees are, you also have some significant salaries there for people who have stayed in the system for a period of time, compared to entry level salaries. As such, I understand your concern, but by the same token, I think that this is something that, most certainly, is of some significant value to school boards if they are going to change business as usual.

I am not sure, necessarily, that for each teacher gone, a teacher has to be replaced. I think that is one of the problems in our educational system. Everybody just believes that we're going to continue to do business as usual, as to do with what we have, never do with any less, and probably look to do with more. It doesn't always mean that we are going to, in fact, do better, and I am concerned about that as well.

Certainly, in the essential areas we can have teachers who are absolutely necessary -- we can't do away with it -- and others who we may very well have department chairmen that have no classrooms; have no classes -- whose administrative burden is relatively light.

So I would hope that the school boards take a real serious look and maybe look at the relative values. I would hate to see it be an impediment to municipal governments, not to be able to proceed with some sort of program. Thank you, Mr. Chairman.

SENATOR WEISS: Thank you very much, Senator Menendez.

SENATOR RICE: Mr. Chairman, if I may add a quick comment and follow-up on that, through you, right quickly. Chairman, I just want to say that I agree with Senator Menendez. I look at my budget all of the time, and it is interesting. I'm spending more money on substitutes than I am on teachers who are tenured and not coming to school -- and

some of them hit that category he speaks about. So I'm just going to request, since I'm trying to prepare a bill locally, that the school board people look very rapidly, because I haven't seen, since I've been here, anything worthy that you support anyway. So do some fast looking, because I'm going to do all I can to get a bill through.

There are a lot of substitutes in my budget. There's a lot of politics in that whole system, and I think that this particular type of legislation will help purge and make sure we have accountability; at least the substitutes come to school everyday. They give more work than the teachers who stay out. So, maybe it is necessary to make the changes and save money.

SENATOR WEISS: Thank you, Senator Rice. Senator Haines?

SENATOR HAINES: I think you said the right thing, and I agree with you. This is a different issue. That's what I was trying to get out of some of the other folks here representing Rutgers and some of the other schools. I definitely feel that it is a different issue. It is something that may be beneficial, but for a different reason.

MS. McMICHAEL: Yes.

SENATOR WEISS: Any other questions or remarks?

SENATOR McMANIMON: No, no comment.

MS. McMICHAEL: Melissa?

SENATOR WEISS: Oh, wait they have more. I thought it was a head-on, like one for three.

MS. KIRSCH: Well, the New Jersey Association of School Administrators differs a little bit, so I have to put in our bit. We support the bill for the State, of course. We would like to see that extended to local school boards. Some of the things that have been brought up are that you can replace the higher, often older employees, with lower salaries to save budgets.

If you've looked in the paper the last few days, a lot of school boards are laying off a lot of people. We have been consulted by a lot of members about the fact that they have to lay off a lot of people, and the ramifications of that. We believe a well thought-out plan could help the local school boards with their budgets. A lot of them are in trouble, too. Though there are some getting more, there are a lot that have been cut, or have other financial problems. So we would really be in support of a well thought-out plan to include local support. Thank you.

MS. COSGROVE: I'd just like to mirror those comments. The New Jersey Principals Association represents about 5200 principals and supervisors throughout the State. We are very interested in the outcome of this legislation, because our members have been deluging our office with phone calls. Half of the phone calls have been to tell us about the impact of the funding system, and about the impact on their local districts, and how many supervisors, principals, and vice principal are going to be laid off.

In light of those comments, they've also heard about this early retirement incentive. And half of the phone calls have been: Are we included? Why aren't we included? See what you can do.

I'm just here today to say that we're willing to put all of our efforts into coming up with some kind of an alternative for schools. The school administrators are often on the higher end of the salary scale, and they are really in a good position to retire. Many of our members have been asking about this legislation, and I'd just like to say that we support it and would like to work towards that kind of a goal for public schools.

SENATOR WEISS: Fine. Thank you very much. Are there any questions? I didn't realize that there were so many people. I just believed State services, school boards, the

schools and colleges, and so on, the ranks of the retirees. Florida here we come. (laughter)

MS. McMICHAEL: Thank you, Senator.

MS. KIRSCH: Thank you.

SENATOR WEISS: Thank you very much, ladies. I appreciate your comments today. The sponsor did make a note of that, did he not? You did make a note of the request from the School Boards and its--

SENATOR McMANIMON: The School Boards were opposed. I assumed that in the beginning because they operate as a separate entity when they're elected. Yet, I only wish they would have put our pension structure all on the same levels throughout the State. They reap the harvest with 55/25. We don't. They get diplomacy because--

SENATOR WEISS: Franny you might not have been satisfied with the rate they gave you in that pension system. Dennis Palmer? Mr. Palmer.

SENATOR LIPMAN: He's not here.

SENATOR McMANIMON: I guess he left.

SENATOR WEISS: I have the last one, who came in late. Peter? You're not on the typewritten list, you know?

P E T E R J. M c D O N O U G H, JR.: I know, and I apologize for signing up late. Very very quickly. The PBA represents 30,000 members of PERS and PFRS in New Jersey; men and women throughout the State at all levels. They've asked me to come here and voice strong support for Senator McManimon's bill, S-1156; Senator O'Connor's bill, S-1337; which both allow for the purchase of previous service time.

These are bills that would provide the same early retirement incentives that the Governor's plan would offer. They have a big benefit, a big improvement over the Governor's plan, in that they require the employee to kick in some money for this so it's a no lose -- a no greater fiscal improvement plan, for all levels of government.

I know that you all voted for the bill once or twice in your careers. It has gone from one House to the other House, and back and forth. Right now, they're both in the Senate Revenue, Finance and Appropriations Committee, and we would hope that you can just release those as soon as you meet next, so that they could be enacted, and we could have some early retirements from the members of the PFRS, who are members of the PBA.

And in answer to Senator Littell's question, Professor Genovese is no longer around. I believe that I read in the paper that he took the ultimate involuntary retirement plan, and died a few years ago. (laughter)

SENATOR WEISS: Well, that's a way out. It may be desperate, but nevertheless, a way out. I think we may know pretty much, Peter, and we'll give your request-- And I sure the sponsor has-- Your enthusiasm, and the fact that your folks want to support the bill is fine. I was just wondering -- it's getting late, so I'm not going to wonder too long-- I have a whole list of retirement bills here somewhere. Do you guys support the rest of these or just those two?

MR. McDONOUGH: On the whole, Senator-- I met with Susan last week.

SENATOR WEISS: How about both pages?

MR. McDONOUGH: Of the whole list of retirement bills, those are the two that are of primary interest to the PBA, S-1337 and S-1156.

SENATOR WEISS: Oh, okay.

SENATOR HAINES: I have a very important question.

SENATOR WEISS: You have.

SENATOR HAINES: Peter, would you like to see some of the Senators retire too? (laughter)

MR. McDONOUGH: Not necessarily. I like the crew we have right now.

SENATOR WEISS: Tell him. Tell him yes. (laughter)

MR. McDONOUGH: None that is in this room.

SENATOR WEISS: That's a safe bet. There may be none in this room. Thank you, Peter. He was the last one, and I would like to-- Did I miss anyone? (no response) I guess not.

I want to thank all of you for your participation today. It's been a long day, especially for the Senators that have been here since 9:00 this morning. I thank you, especially. As usual, you did fine.

SENATOR RICE: Put in mine for you, Mr. Chairman.

SENATOR WEISS: I'm going to make an exception in your case. (laughter) But nevertheless, thank you very much, and I'd like to thank New Jersey Public TV personally, for their coverage the last two days, and OLS, Gerry Silliphant, and even the janitors that are going to have to clean this dump up.

(HEARING CONCLUDED)

APPENDIX

ASSEMBLY, No. 4636

STATE OF NEW JERSEY

INTRODUCED MARCH 11, 1991

By Assemblymen CIMINO, WATSON, Naples, Paterno, McEnroe,
Assemblywoman Bush, Assemblymen Zangari and Aduato

1 AN ACT concerning retirement benefits for some members of
2 certain State-administered retirement systems.

3

4 BE IT ENACTED *by the Senate and General Assembly of the*
5 *State of New Jersey:*

6 1. A State employee who:

7 a. is 50 or more years of age and has 25 or more years of
8 service credit under the Public Employees' Retirement System
9 (PERS) or the Teachers' Pension and Annuity Fund (TPAF), or
10 service with public employers in this State participating in the
11 Alternate Benefit Program (ABP) for which contributions were
12 made by the employee under the program before the effective
13 date of retirement;

14 b. files an application to retire on or before June 1, 1991; and

15 c. retires under the retirement system on or after April 1,
16 1991, but not later than July 1, 1991, other than a veteran who
17 retires on a special veteran's retirement, shall receive an
18 additional five years of service credit under PERS or TPAF, or an
19 amount equal to 100% of the employee's base annual salary from
20 the employer at the time of retirement for members of ABP. An
21 employee who meets the age and service credit requirements and
22 retires on a special veteran's retirement under PERS or TPAF
23 shall receive an additional pension under the retirement system
24 in the amount of 5/60 of final year compensation. A full-time
25 employee of the Rutgers University Cooperative Extension
26 Service who meets the age and service requirements based upon
27 service credited in the federal Civil Service Retirement System
28 or the Federal Employees Retirement System earned as a result
29 of full-time employment at Rutgers University alone, or in
30 combination with service credit under PERS or qualifying service
31 under ABP, and is eligible to retire under the federal Civil
32 Service Retirement System or the Federal Employees Retirement
33 System within the time period set forth in subsection c., shall
34 receive the benefits provided by this section. If the employee is
35 a member of the federal Civil Service Retirement System or the
36 Federal Employees Retirement System, the employee shall
37 receive an amount equal to 100% of the employee's base annual
38 salary from the employer at the time of retirement.

39 2. For a State employee who:

40 a. is 60 or more years of age and has 20 or more years of
41 service credit under the Public Employees' Retirement System

1x

1 (PERS) or the Teachers' Pension and Annuity Fund (TPAF), or
2 service with public employers in this State participating in the
3 Alternate Benefit Program (ABP) for which contributions were
4 made by the employee under the program before the effective
5 date of retirement;

6 b. files an application to retire on or before June 1, 1991; and

7 c. retires under the retirement system on or after April 1,
8 1991, but not later than July 1, 1991. the retirement system for
9 PERS or TPAF members, or the State for ABP members shall pay
10 the premium or periodic charges for benefits provided to the
11 retired State employee and the employee's dependents, but not
12 including survivors, under the "New Jersey State Health Benefits
13 Program Act," P.L. 1961, c. 49 (C.52:14-17.25 et seq.), in the
14 same manner provided for State payment of premiums or periodic
15 charges for retired State employees under subsection c. of
16 section 8 of that act (C.52:14-17.32). A full-time employee of
17 the Rutgers University Cooperative Extension Service who meets
18 the age and service requirements based upon service credited in
19 the federal Civil Service Retirement System or the Federal
20 Employees Retirement System earned as a result of full-time
21 employment at Rutgers University alone, or in combination with
22 service credit under PERS or qualifying service under ABP, and is
23 eligible to retire under the federal Civil Service Retirement
24 System or the Federal Employees Retirement System within the
25 time period set forth in subsection c., shall receive the benefits
26 provided by this section. The State shall pay the premium or
27 periodic charges for the benefits if the employee is a member of
28 the federal Civil Service Retirement System or the Federal
29 Employees Retirement System.

30 3. The actuaries for PERS and TPAF shall determine the
31 liabilities of the retirement systems for the additional service
32 credit or pensions and health benefits payments provided under
33 this act and for the early retirement of employees in accordance
34 with the tables of actuarial assumptions adopted by the boards of
35 trustees of the retirement systems. These liabilities shall be
36 added to the unfunded accrued liabilities of the State under the
37 retirement systems and shall be paid in the same manner and over
38 the remaining time periods provided for the State's unfunded
39 accrued liability under section 24 of P.L. 1954, c. 84
40 (C.43:15A-24) and N.J.S.18A:66-18, respectively. The State shall
41 pay the cost of the actuarial work to determine the additional
42 liabilities of the retirement systems for the benefits under this
43 act.

44 4. The cost of the cash payments for members of ABP, the
45 federal Civil Service Retirement System and the Federal
46 Employees Retirement System under this act shall be funded by
47 the employer from annual appropriations to the employer in the
48 State Budget or from funds otherwise available for payment of
49 operating expenditures.

50 5. A State employee who receives a benefit under this act

1 shall forfeit all tenure rights, and all rights and protections
2 provided the employee under Title 11A, Civil Service, of the New
3 Jersey Statutes, with respect to the employment terminated by
4 retirement to qualify for the benefit.

5 6. Where the needs of a State department or a State college or
6 university require the services of an employee who elects to
7 retire and receive a benefit under this act, the State department,
8 with the approval of the State Treasurer, or the State college or
9 university, with the approval of the State Board of Higher
10 Education, may delay the effective retirement date of the
11 employee until the first day of any calendar month after July 1,
12 1991, but not later than July 1, 1992. The effective retirement
13 date of an employee of the Legislative or Judicial Branch of
14 State government who elects to retire and receive a benefit
15 under this act may be similarly delayed with the approval of the
16 Senate President in the case of an employee of the Senate, the
17 Speaker of the General Assembly in the case of an employee of
18 the General Assembly, the Legislative Services Commission in
19 the case of an employee of the Office of Legislative Services,
20 and the Chief Justice of the Supreme Court in the case of an
21 employee of the Judicial Branch. A delay in the effective
22 retirement date of an employee shall not extend the dates set
23 forth in sections 1 and 2 to qualify for benefits under this act.

24 7. A State employee retiring under PERS or TPAF on or after
25 April 1, 1991, but not later than July 1, 1991, who has not repaid
26 the full amount of a loan from the retirement system made
27 before April 1, 1991 by the effective date of retirement, may
28 repay the loan through deductions from the member's retirement
29 benefit payments in the same monthly amount which was
30 deducted from the member's compensation immediately
31 preceding retirement until the balance of the amount borrowed
32 together with interest at the statutory rate is repaid. If the
33 retiree dies before the outstanding balance of the loan and
34 interest is repaid, the remaining amount shall be repaid as
35 provided in section 2 of P.L. 1981, c. 55 (C. 43:15A-34.1) or
36 section 2 of P.L. 1981, c. 212 (C. 18A:66-35.1), as appropriate.

37 8. For the purposes of this act:

38 a. "State employee" means a full-time employee, eligible to
39 participate in the New Jersey State Health Benefits Program, of
40 a State department, or Rutgers, The State University, the New
41 Jersey Institute of Technology, the University of Medicine and
42 Dentistry of New Jersey, or a State college. It does not include
43 an employee of an authority, board, commission, corporation, or
44 other agency or instrumentality, other than Rutgers, The State
45 University, authorized to participate in PERS under section 73 of
46 P.L.1954, c.84 (C.43:15A-73) or P.L.1990, c.25 (C.43:15A-73.2 et
47 seq.), or a public agency or organization as defined in section 71
48 of P.L.1954, c.84 (C.43:15A-71).

49 b. "Final year compensation" means the compensation received
50 in the last 12 months immediately preceding retirement in which

3x

1 compensation is received and upon which contributions are made
2 by the employee to the retirement system.

3 9. This act shall take effect immediately.

4
5
6 STATEMENT
7

8 This act provides for additional benefits for certain State
9 employees who retire under the Public Employees' Retirement
10 System (PERS), the Teachers' Pension and Annuity Fund (TPAF),
11 or the Alternate Benefit Program (ABP) between April 1, 1991
12 and July 1, 1991. Employees who are 50 or more years of age and
13 have 25 or more years of service credit under PERS or TPAF as
14 of the effective date of retirement will receive an additional five
15 years of service credit. Employees who meet the age and service
16 credit requirements and retire on special veteran's retirement
17 under PERS and TPAF will receive an additional pension in the
18 amount of 5/60 of their final-year compensation. Members of
19 ABP who are 50 or more years of age and have 25 or more years
20 of service with public employers in this State participating in the
21 program for which contributions were made by the employee to
22 the program will receive an amount equal to one year of salary,
23 based upon their base salary, at the time of retirement.
24 Employees who are 60 or more years of age and have 20 or more
25 years of service as of the effective date of retirement will
26 receive payment of premiums for retired coverage under the
27 State Health Benefits Program for themselves and their
28 dependents, but not including survivors. A full-time employee of
29 the Rutgers University Cooperative Extension Service may use
30 service credited in the federal Civil Service Retirement System
31 or the Federal Employees Retirement System earned as a result
32 of full-time employment with Rutgers University alone, or in
33 combination with service credit under PERS or qualifying service
34 under ABP, to qualify for benefits under the act. The employee
35 must be eligible to retire under the federal Civil Service
36 Retirement System or the Federal Employees Retirement System
37 within the time period specified in the act.

38 A State employee retiring under PERS or TPAF between April
39 1, 1991 and July 1, 1991 who has an outstanding loan which was
40 made prior to April 1, 1991 would have the option of repaying the
41 balance plus interest by deductions from retirement benefit
42 payments in the same monthly amount that was deducted from
43 the employee's compensation preceding retirement.

44 The cost of the benefits for PERS and TPAF members will be
45 funded through increased State contributions to the retirement
46 systems. The cost of the cash payments for ABP members will be
47 paid by their employers out of their operating budgets. The cost
48 of the health benefits payments for ABP members shall be paid
49 by the State. For employees of Rutgers University who retire
50 from the federal Civil Service Retirement System or the Federal

4x

1 Employees Retirement System. Rutgers will pay the cost of the
2 cash payments from its operating budget and the State will pay
3 the cost for the State health benefits payments.

4 Where the needs of a State department or a State college or
5 university require the services of an employee who elects to
6 receive a benefit under the act, the department, with the
7 approval of the State Treasurer, or the college or university, with
8 the approval of the State Board of Higher Education, may delay
9 the effective retirement date of the employee for up to one year,
10 but not later than July 1, 1992. The effective retirement dates
11 for employees of the Legislative and Judicial Branches may be
12 similarly delayed with the approval of the appropriate authorities
13 in those branches. The authorization for delays in effective
14 retirement dates does not extend the dates for qualification for
15 benefits under the act.

16 Eligibility for benefits under this act is limited to employees of
17 State departments and the State colleges and universities.
18 Authorization to offer early retirement benefits for counties,
19 municipalities, public agencies or organizations, and State
20 autonomous authorities may be addressed in separate legislation.

21 Five years of service credit would increase retirement benefits
22 in the amount of 8.33% of final average salary, or \$833 for every
23 \$10,000 of final average salary. The employees eligible for the
24 benefit would have on average 30 years of service credit and a
25 final average salary of approximately \$40,000. Their retirement
26 benefits would be increased on average from \$20,000 to \$23,333,
27 which represents a 16% increase. The present value of this
28 lifetime benefit is approximately equal to one year of salary.
29 The annual premium for employee and spouse coverage under the
30 State Health Benefits Program for the next fiscal year will be
31 \$4,700.

32 The employees eligible for the benefits under this act are all
33 eligible to retire under their respective retirement systems.
34 Hopefully these additional benefits will induce a large number of
35 them to retire and thus assist in reducing the workforce in State
36 government and at the State colleges and universities in this time
37 of fiscal crisis.

38
39

40 PUBLIC EMPLOYEE BENEFITS

41
42 Provides additional retirement benefits for certain members of
43 certain State-administered retirement systems who retire
44 between April 1, 1991 and July 1, 1991.

STATE OF NEW JERSEY

S U M M A R Y :

**EARLY RETIREMENT
INCENTIVE PROPOSAL**

**FOR
STATE EMPLOYEES**

(INCLUDING FACULTY AND STAFF AT
STATE COLLEGES AND UNIVERSITIES)

Revised March 25, 1991

6x

EARLY RETIREMENT INCENTIVE PROGRAM
Summary

PURPOSE

The Early Retirement Incentive Program is designed to reduce State government costs by decreasing the size of the State workforce and as an end result, minimize the impact of involuntary employment reductions.

TARGETED POPULATION

All State employees including faculty and staff of State universities and colleges who are members of the Public Employees' Retirement System (PERS), the Alternative Benefit Program (ABP), the Teachers' Pension and Annuity Fund (TPAF) and certain participants of the federal retirement systems.

The majority of eligible State employees are enrolled in the Public Employees' Retirement System (PERS). Employees at the colleges and universities are enrolled primarily in PERS and the Alternate Benefit Program (ABP). In addition, there are some eligible State employees who are enrolled in the Teachers' Pension and Annuity Fund (TPAF) and a few Rutgers University employees enrolled in the federal retirement systems.

ELIGIBILITY CRITERIA & INCENTIVES

CATEGORY I

Eligibility Criteria: At least age 50 with 25 or more years of pension membership credit

Incentive:

PERS & TPAF members* → additional 5 years of pension membership credit
ABP & federal systems → one year's base salary

** Eligible employees who qualify for a veteran's retirement benefit would receive an incentive equal to 5/60 of final year's salary which would be added to their special veteran's benefit.*

CATEGORY II

Eligibility Criteria: At least age 60 with 20-24 years of pension membership credit

Incentive:

PERS & TPAF members → eligibility for free health benefits coverage*
ABP & federal systems → eligibility for free health benefits coverage*

** The 50/25 group is already eligible for free health benefits coverage.*

Revised March 25, 1991

EARLY RETIREMENT INCENTIVE PROGRAM
Summary

TENTATIVE SCHEDULE FOR IMPLEMENTATION

April 1 - May 31 Employees given two months to file for retirement.

June 1 Deadline for filing.

April 1	}	EFFECTIVE DATES OF EARLY RETIREMENT
May 1		
June 1		
July 1		

OTHER SALIENT FEATURES

- There are approximately 5,621 employees who are eligible to retire:

PERS	-	4,401*
ABP	-	750
TPAF	-	450*
Federal	-	20

- It is estimated that 1/3 of those eligible would retire.
- The additional five years of pension membership credit would amount to an approximate 16 % increase in retirement benefits on average for the PERS and TPAF members.
- The benefit of one year's base salary for ABP and federal members is actuarially equivalent to five years of pension membership credit.
- The free health benefits coverage, using rates effective July 1, 1991, is valued at approximately \$4,700 per year for employee and spouse coverage.
- PERS and TPAF members who meet the pension membership credit requirement of 25 years but are not yet 55, will be subject to the reduction factor for early retirement (1/4 of 1% for each month under 55).

* These numbers include 3,711 State employees in PERS and 258 in TPAF. The remainder of employees — 690 in PERS and 192 in TPAF — are employed at the State colleges and universities. The savings on the next page reflect the savings which would accrue to the State based only upon the estimated number of State employees who would retire under this program.

Revised March 25, 1991

EARLY RETIREMENT INCENTIVE PROGRAM
Summary

COSTS & SAVINGS TO STATE

The costs outlined below are the costs to the PERS and TPAF systems. The lump sum payments to members of the ABP and federal systems would be borne by the colleges and universities. The colleges and universities would pay the cost and benefit from the salary savings. Therefore, we have not shown costs or savings to the State for these two parts of the program.

TOTAL FIRST YEAR SAVINGS: \$56.8 MILLION*

PERS — \$54.3 million Salary
 8.1 million Pension and Social Security Contributions
 \$62.4 million
 (\$10.7) million Sick leave payout

 \$51.7 million First Year's Savings*

TPAF— \$ 5.0 million Salary
 \$ 0.8 million Pension and Social Security Contributions
 \$ 5.8 million
 (\$ 0.7) million Sick leave payout

 \$ 5.1 million First Year's Savings*

**Comparable savings in subsequent years.*

TOTAL ANNUAL COSTS: \$10.2 MILLION

PERS — \$9.1 million for initial year with 3.86% increase each year for 27 years if funded through the pension fund accrued liability.

TPAF — \$1.1 million each year for 30 years if funded through the pension fund accrued liability.

Revised March 25, 1991

EARLY RETIREMENT INCENTIVE PROGRAM
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)
SERVICE RETIREMENT EXAMPLE SHEET

ELIGIBILITY CATEGORY:

Employees who are at least age 50 with 25 or more years of pension membership credit.*

INCENTIVE:

Eligible PERS members will receive an additional 5 years of pension membership credit. (Employees who retire with 25 or more years of pension membership credit are already eligible for free health benefits coverage).

Eligible members who qualify for a special veteran's retirement benefit would receive an incentive equal to 5/60 of final year's salary which would be added to their veteran's benefit.

PERS SERVICE RETIREMENT:

Benefit Calculation = $\frac{\text{Years of Service}}{60} \times \text{Final Average Salary}^{**}$

EXAMPLE I:

PERS Member's Age = 50
Years of Pension Membership Credit = 25
Final Average Salary = \$40,000

CURRENT BENEFIT

$$\frac{25}{60} \times \$40,000 \times .85^* = \$14,170$$

INCENTIVE BENEFIT (+ 5 Years)

$$\frac{30}{60} \times \$40,000 \times .85^* = \$17,000$$

EXAMPLE II:

PERS Member's Age = 60
Years of Pension Membership Credit = 30
Final Average Salary = \$45,000

CURRENT BENEFIT

$$\frac{30}{60} \times \$45,000 = \$22,500$$

INCENTIVE BENEFIT (+ 5 Years)

$$\frac{35}{60} \times \$45,000 = \$26,250$$

* PERS members who meet the service credit requirement of 25 years but are not yet 55, will be subject to the reduction factor for early retirement (1/4 of 1% for each month under 55).

** Final Average Salary = Average of last 3 years or 3 highest fiscal years. 3/14/91

10x

EARLY RETIREMENT INCENTIVE PROGRAM
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)
SPECIAL VETERAN'S RETIREMENT EXAMPLE SHEET

ELIGIBILITY CATEGORY:

Employees who are at least age 50 with 25 or more years of pension membership credit.

INCENTIVE:

Eligible members who qualify for a special veteran's retirement benefit would receive an incentive equal to 5/60 of final year's salary which would be added to their veteran's benefit. (Employees who retire with 25 or more years of pension membership credit are already eligible for free health benefits coverage).

PERS VETERAN RETIREMENT:

Benefit Calculation = $\frac{1}{2}$ X Final Year's Salary*

EXAMPLE I:

PERS Member's Age: = 62
Years of Pension Membership Credit = 25
Final Year's Salary = \$40,000

<u>CURRENT BENEFIT</u>	<u>INCENTIVE BENEFIT (+ 5/60)</u>	<u>TOTAL BENEFIT</u>
$\frac{1}{2} \times \$40,000 = \$20,000$	$\frac{5}{60} \times \$40,000 = \$3,333$	\$23,333

EXAMPLE II:

PERS Member's Age = 65
Years of Pension Membership Credit = 30
Final Year's Salary = \$45,000

<u>CURRENT BENEFIT</u>	<u>INCENTIVE BENEFIT (+ 5/60)</u>	<u>TOTAL BENEFIT</u>
$\frac{1}{2} \times \$45,000 = \$22,500$	$\frac{5}{60} \times \$45,000 = \$3,750$	\$26,250

* Final Year's Salary = the compensation received in the last 12 months immediately preceding retirement in which compensation is received and upon which contributions are made by the employee to the retirement system.

EARLY RETIREMENT INCENTIVE PROGRAM
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)
EXAMPLE SHEET

ELIGIBILITY CATEGORY:

Employees who are at least age 60 with 20 to 24 years of pension membership credit.

INCENTIVE:

Eligible PERS members will receive free health benefits coverage.

APPROXIMATE VALUE:

<u>BC/BS/PRUDENTIAL-TRADITIONAL PLAN</u>	<u>ANNUAL PREMIUM 7/1/91</u>
Single	\$2,200
Husband & Wife	\$4,700
Family	\$5,500
Parent & Child(ren)	\$3,200

3/14/91

12x

EARLY RETIREMENT INCENTIVE PROGRAM
TEACHERS' PENSION & ANNUITY FUND (TPAF)
SERVICE RETIREMENT EXAMPLE SHEET

ELIGIBILITY CATEGORY:

Employees who are at least age 50 with 25 or more years of pension membership credit.*

INCENTIVE:

Eligible TPAF members will receive an additional 5 years of pension membership credit. (Employees who retire with 25 or more years of pension membership credit are already eligible for free health benefits coverage).

Eligible members who qualify for a special veteran's retirement benefit would receive an incentive equal to 5/60 of final year's salary which would be added to their veteran's benefit.

TPAF SERVICE RETIREMENT:

$$\text{Benefit Calculation} = \frac{\text{Years of Service}}{60} \times \text{Final Average Salary}^{**}$$

EXAMPLE I:

TPAF Member's Age = 50
Years of Pension Membership Credit = 25
Final Average Salary = \$40,000

CURRENT BENEFIT

$$\frac{25}{60} \times \$40,000 \times .85^* = \$14,170$$

INCENTIVE BENEFIT (+ 5 Years)

$$\frac{30}{60} \times \$40,000 \times .85^* = \$17,000$$

EXAMPLE II:

TPAF Member's Age = 60
Years of Pension Membership Credit = 30
Final Average Salary = \$45,000

CURRENT BENEFIT

$$\frac{30}{60} \times \$45,000 = \$22,500$$

INCENTIVE BENEFIT (+ 5 Years)

$$\frac{35}{60} \times \$45,000 = \$26,250$$

* TPAF members who meet the service credit requirement of 25 years but are not yet 55, will be subject to the reduction factor for early retirement (1/4 of 1% for each month under 55).

** Final Average Salary = Average of last 3 years or 3 highest fiscal years (1/14/91)

13X

EARLY RETIREMENT INCENTIVE PROGRAM
TEACHERS' PENSION & ANNUITY FUND (TPAF)
SPECIAL VETERAN'S RETIREMENT EXAMPLE SHEET

ELIGIBILITY CATEGORY:

Employees who are at least age 50 with 25 or more years of pension membership credit.

INCENTIVE:

Eligible members who qualify for a veteran's retirement benefit would receive an incentive equal to 5/60 of final year's salary which would be added to their special veteran's benefit. (Employees who retire with 25 or more years of pension membership credit are already eligible for free health benefits coverage).

TPAF VETERAN'S RETIREMENT:

Benefit Calculation = $\frac{1}{2}$ X Final Year's Salary*

EXAMPLE I:

TPAF Member's Age: = 60
Years of Pension Membership Credit = 25
Final Year's Salary = \$40,000

<u>CURRENT BENEFIT</u>	<u>INCENTIVE BENEFIT (+ 5/60)</u>	<u>TOTAL BENEFIT</u>
$\frac{1}{2}$ X \$40,000 = \$20,000	$\frac{5}{60}$ X \$40,000 = \$3,333	\$23,333

EXAMPLE II:

TPAF Member's Age = 55
Years of Pension Membership Credit = 25
Final Year's Salary = \$45,000

<u>CURRENT BENEFIT</u>	<u>INCENTIVE BENEFIT (+ 5/60)</u>	<u>TOTAL BENEFIT</u>
$\frac{1}{2}$ X \$45,000 = \$22,500	$\frac{5}{60}$ X \$45,000 = \$3,750	\$26,250

* Final Year's Salary = the compensation received in the last 12 months immediately preceding retirement in which compensation is received and upon which contributions are made by the employee to the retirement system.

EARLY RETIREMENT INCENTIVE PROGRAM
TEACHERS' PENSION & ANNUITY FUND (TPAF)
EXAMPLE SHEET

ELIGIBILITY CATEGORY:

Employees who are at least age 60 with 20 to 24 years of pension membership credit.

INCENTIVE:

Eligible TPAF members will receive free health benefits coverage.

APPROXIMATE VALUE:

<u>BC/BS/PRUDENTIAL-TRADITIONAL PLAN</u>	<u>ANNUAL PREMIUM 7/1/91</u>
Single	\$2,200
Husband & Wife	\$4,700
Family	\$5,500
Parent & Child(ren)	\$3,200

3/14/91

15x

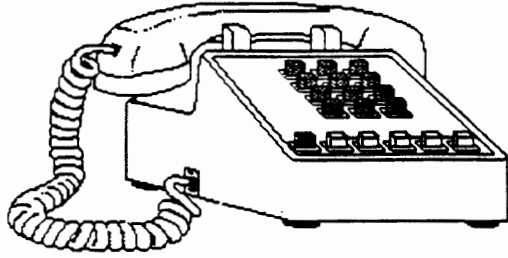
EARLY RETIREMENT INCENTIVE PROGRAM

DIVISION OF PENSIONS

TARGETED ACTION PLAN

STEP 1	Division of Pensions Early Retirement Incentive Hotline - ATTACHMENT A <ul style="list-style-type: none">• In Service - 24 hour, 7 day per week telephone hotline• Updated with current program information
STEP 2	Division of Pensions calculates retirement estimates for eligible employees.
STEP 3	Division of Pensions mails Early Retirement Incentive Program announcements to home addresses of eligible employees. Separate announcements prepared for each eligibility category. Announcements include: <ul style="list-style-type: none">- Retirement estimates- Application for Retirement Allowance- Brochure - <i>Retirement Processing, Health Benefits & Federal/State Income Tax</i>- Brochure - <i>Retirement Options</i>- Brochure - <i>Early Retirement Incentive Program Planning Seminar</i>- List of Personnel Liaisons
STEP 4	Division of Pensions conducts large group Early Retirement Incentive Program workshops .
STEP 5	Eligible employees complete an <i>Application for Retirement Allowance</i> and submit to the Division of Pensions.
STEP 6	Division of Pensions contacts appropriate Personnel Liaison to submit Certifications of Service and Final Salary for those employees submitting retirement applications. Personnel Liaisons complete salary certification within 5 days of Division of Pensions notification.
STEP 7	All early retirement incentive program retirement applications and salary certifications received by the Division of Pensions.
STEP 8	All retirements under the Early Retirement Incentive Program are effective .
STEP 9	Retirements under the Early Retirement Incentive Program become due and payable 30 days after the effective date of retirement or 30 days after the date of board approval, whichever is later.

167



777-1933*

**That's the number to call
for the latest information
about
the Early Retirement
Incentive Program.**

**This Division of Pensions' hotline
is updated with current program
information.**

** If you are calling from out of the 609 area code, call (609)777-1933. If
you are calling from Trenton Centrex, call 7-1933.*

17X

3191

COUNCIL OF NEW JERSEY STATE COLLEGE LOCALS



NJSFT-AFT/AFL-CIO
420 CHESTNUT STREET
UNION, NEW JERSEY 07083
201-964-8476



PROPOSED AMENDMENTS TO A-4636 AND S-3358

Modify Section 1(c) to read:

c. retires under the retirement system on or after April 1, 1991, but not later than July 1, 1991, other than a veteran who retires on a special veteran's retirement, shall receive an additional five years of service credit under PERS or TPAF, or an amount equal to 100% of the employee's base annual salary from the employer at the time of retirement for members of ABP. [An employee] A veteran who meets the age and service credit requirements and retires [on a special veteran's retirement] pursuant to this section under PERS or TPAF shall receive an additional pension under the retirement system in the amount of 5/60 of final year compensation. Any such veteran who has at least 31 years of aggregate service credit shall have the privilege of retiring for service and receiving a retirement allowance of one-sixtieth of the final year compensation for each year of creditable service and an additional pension under the retirement system in the amount of 5/60 of final year compensation. A full-time employee of the Rutgers University Cooperative Extension Service who meets the age and service requirements based upon service credited in the federal Civil Service Retirement System or the Federal Employees Retirement System earned as a result of full-time employment at Rutgers University alone, or in combination with service credit under PERS or qualifying service under ABP, and is eligible to retire under the federal Civil Service Retirement System or the Federal Employees Retirement System within the time period set forth in subsection c., shall receive the benefits provided by this section. If the employee is a member of the federal Civil Service Retirement System or the Federal Employees Retirement System, the employee shall receive an amount equal to 100% of the employee's base salary from the employer at the time of retirement.

Add to Section 8:

c. Employees participating in the Alternate Benefit Program whose salaries for a school/academic year are considered as a full year's compensation shall be given credit for service in the proportion that the time employed bears to the duration of the school/academic year, but not more than one year's credit shall be given during any consecutive 12 months.

18x

STATEMENT

For those accepting a retirement incentive, this amendment to Section 1(c) would extend the special veterans benefit available at 35 years of service to include those with 31-34 years of service; it would remove the age 60 requirement for those receiving this benefit; and it would provide a uniform early retirement incentive of 5/60 of final year compensation to all veterans.

The amendment is intended to correct certain problems which arise with respect to veterans with more than 30 and less than 35 years of service because the special veterans retirement as enacted many years ago is not advantageous after the 31st year of service. Subsequent legislation provided additional special veteran's benefits commencing with the 35th year of service. The net result has been to make regular retirement more advantageous for veterans with 32, 33, and 34 years of service.

The annual value of the retirement incentive provided in A-4636 and S-3358 is 5/60 of the final average compensation (over the last 3 years of employment) for regular retirement and 5/60 of the final year compensation for special veterans' retirement. The difference is approximately \$150 per year on a \$40,000 final salary for an employee on the maximum of the salary guide for the last three years -- a sum which veterans retiring with 32-34 years of service would not receive.

Under the unamended bill, there would be a negative incentive for retirement with 32-34 years of service; one could increase one's benefits significantly by waiting. The amendment would create a more equitable and effective retirement incentive for veterans.

The amendment to Section 8 is designed to remove any ambiguity as to whether an employee in the Alternate Benefit Program has enough service to be eligible for an early retirement incentive. Service credit in the Alternate Benefit Program is not currently defined in statute or regulation. The proposed language follows closely the current definition of service credit applicable to TPAF, which is set forth in N.J.A.C. 17:3-4.3.

19x

COUNCIL OF NEW JERSEY STATE COLLEGE LOCALS



NJSFT-AFT/AFL-CIO
420 CHESTNUT STREET
UNION, NEW JERSEY 07083
908-964-8476



VETERANS' PENSION INCENTIVES

The following figures are based on a final year salary of \$40,000 for an employee at range maximum who has received the negotiated across-the-board increases during the last three years (5% in Fall, 1988; 4% in January-February 1990; and 4.5% in Fall 1990).

Final Year Salary (1990-91): \$40,000
1988-89 Salary: \$37,948
1988-89 Salary: \$36,761

Final Average Salary (3 Year): \$38,236

A-4636 WITHOUT AMENDMENT

<u>Years of Service</u>	<u>Pension</u>	<u>Incentive</u>	<u>Total</u>
30	\$20,000*	\$3,333*	\$23,333
31	\$20,000*	\$3,333*	\$23,333
32	\$20,393	\$3,186	\$23,579
33	\$21,030	\$3,186	\$24,216
34	\$21,667	\$3,186	\$24,853
35	\$23,333*	\$3,333*	\$26,666

*Special Veteran's Benefit

A-4636 WITH SUGGESTED AMENDMENT

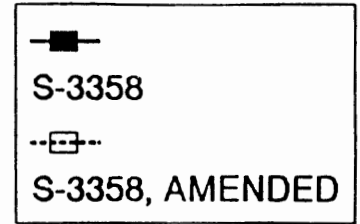
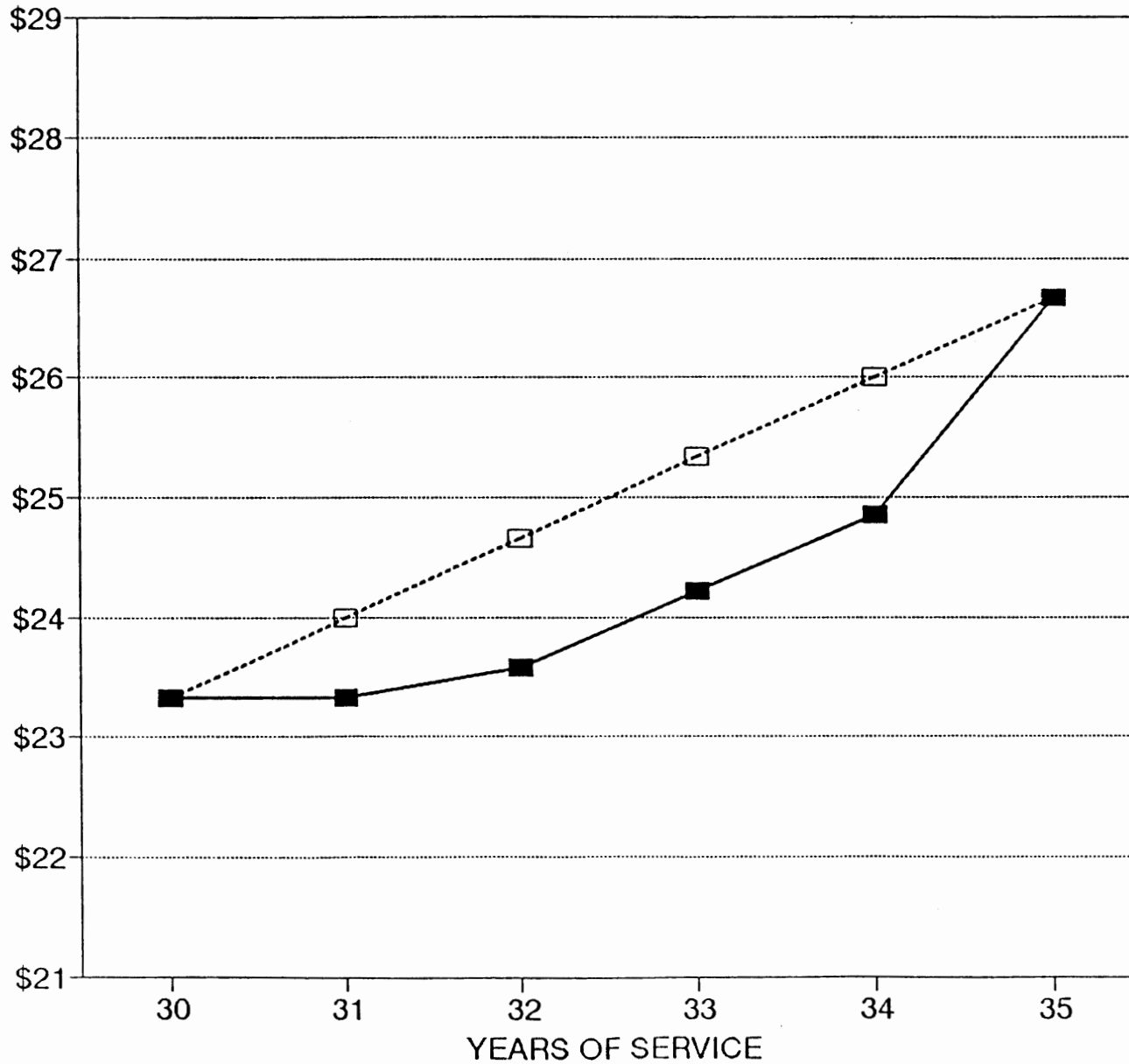
<u>Years of Service</u>	<u>Pension</u>	<u>Incentive</u>	<u>Total</u>
30	\$20,000	\$3,333	\$23,333
31	\$20,667	\$3,333	\$24,000
32	\$21,333	\$3,333	\$24,666
33	\$22,000	\$3,333	\$25,333
34	\$22,667	\$3,333	\$26,000
35	\$23,333	\$3,333	\$26,666

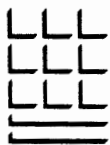
20x

VETERAN'S PENSIONS

(FINAL SALARY = \$40,000)

21x
AMOUNT OF PENSION (WITH INCENTIVE)
(Thousands)





NEW JERSEY STATE COLLEGE
GOVERNING BOARDS
ASSOCIATION, INC.

150 WEST STATE STREET
TRENTON, NEW JERSEY 08608
(609) 989-1100

GLASSBORO STATE COLLEGE
JERSEY CITY STATE COLLEGE
KEAN COLLEGE OF NEW JERSEY
MONTCLAIR STATE COLLEGE
RAMAPO COLLEGE OF NEW JERSEY
SIOUXTON STATE COLLEGE
THOMAS A. EDISON STATE COLLEGE
TRENTON STATE COLLEGE
WILLIAM PATERSON COLLEGE OF NEW JERSEY

Proposed Amendment to S-3358/A-4636

Modify Section 4 to read:

4. The cost of the cash payments for members of APB, the federal Civil Service Retirement System and the Federal Employees Retirement System under this act shall be funded by the employer from annual appropriations to the employer in the State Budget or from funds otherwise available for payment of operating expenditures. At institutions of higher education, such payment shall be made in three annual installments, each equal to one-third of the total payment; the first installment to be paid at the time of retirement.

Amendment proposed for the following reason:

1. Benefit to Retiring Employee

The last higher education early retirement incentive program for tenured faculty (P.L. 1987, c. 88) did not mandate, in law, payment of the retirement benefit (also equal to 100% of employee's base annual salary at time of retirement) by the institution (from state appropriated funds for the program) to the retiree over an extended period of time. Accordingly, the I.R.S. ruled that retiring employees could not defer their benefit payments over time to decrease their federal tax commitments.

Our informal review of appropriate I.R.S. code leads us to the conclusion that as long as the legislature mandates the distribution of the retirement benefit payment over three taxable years (with no option available to the employee for lump sum payment), then the I.R.S. can only tax that amount (1/3 of benefit) provided in that taxable year.

2. Benefit to College/University

By spreading institutional cost of cash payments for APB members over three years, public colleges and universities will not suffer the same potential fiscal impact they will with present language requiring a lump sum payment. This is particularly critical in FY 1992 where institutional budgets are most strained due to massive cuts in state appropriations. The real benefit to our institutions will be realized by the flexibility they will accrue for diverting precious shrinking resources to retaining younger (particularly recently hired women and minority) faculty members, and to responding to ever-changing student academic needs.

22x

**N. J. STATE LEAGUE
OF MUNICIPALITIES
PENSION STUDY COMMITTEE**

SUMMARY

**EARLY RETIREMENT
INCENTIVE PROPOSAL**

**FOR
LOCAL GOVERNMENT EMPLOYEES**

March 26, 1991

23X

NEW JERSEY STATE LEAGUE OF MUNICIPALITIES

407 West State Street, Trenton, N.J. 08618

March 26, 1991

Members of Revenue and Appropriation Budget Committee
Senate State Government and Federal and Interstate Relations Committee

RE: S-3358

As a representative of local government and chairman of League Pension Study Committee, I have with great interest followed the early retirement incentive proposal initially announced by Governor Florio as reduced to writing in the latest document dated March 13, 1991. First let me indicate we believe the Early Retirement Incentive Proposal is well founded for the State and believe it should be extended to local government. The current program provides State employees a window of opportunity that would commence as of April 1, 1991 and must be cumulated as of July 1, 1991. That compressed time schedule will permit the state to deal with the 5,220 employees who are eligible for the early retirement incentives. If the State's estimate is correct approximately one third of those individuals will avail themselves of the opportunity.

According to the last valuation report for the Public Employees Retirement System produced for the Division of Pensions, there are 262,369 members in the PERS system. This is divided between 111,245 males and 151,124 females. If I draw your attention to Table I it is a delineation of those individuals who are members of the system and have reached the age of 50 or greater. You will see that there are 38,715 male employees when placed over the total male population, it indicates that 34.80 percent of the male population qualifies on the first criteria which is age. There are 53,141 female employees which indicates that 35.16 percent of the female's qualify on age basis. Therefore, when one looks at the total population of the PERS membership, 91,856 members or 35% would qualify based upon the age factor.

Table II - When looking at the total universe of PERS membership, the second criteria is years of service. There are 12,047 male members who have 20 or more years of service which reflects 10.83% of the total membership. There are 10,528 female members that have 20 or more years of service and this reflects 6.97% of the female population. When comparing the male and female population to the total membership, it is 8.60% of the full membership that have 20 or more years of service. State PERS membership is 84,716 employees. The balance of 177,653 PERS members are local government employees.

24x

Table III refines the analysis from the total system members to only local government membership. It demonstrates the percentages remain consistent and therefore the experience the state will have with early retirement should be similar to projected for local government. Table III indicates that 38% of local government employees would qualify based on the age criteria. Table IV shows that 7.6% would qualify based upon years of service. To that extent, one would be able to extrapolate that approximately 8,000 local government employees would be eligible for early retirement incentives if offered to local governments. If the same rule of thumb were to hold true as projected by the Division of Pensions for state employees, then one third of those employees or approximately 3,000 would take advantage of the offering.

What specifically are we requesting for local government? We are requesting an early incentive program a little different from that proposed for State employees. The eligible criteria and incentives would be:

CATEGORY 1

Eligibility Criteria: At least age 50 with 20 or more years of pension membership credit.

Incentive:

PERS members additional 5 years of pension membership credit would accrue.

*Eligible employees who qualify for a veteran's retirement benefit would receive an incentive equal to 5/60 of final year's salary which would be added to their special veteran's benefit.

CATEGORY II

Eligibility Criteria: Age 60 with at least 20 years of service in the pension membership system.

Incentive:

PERS members Eligibility for free health benefit coverage which may necessitate an amendment to N.J.S.A. 10-23.

Schedule for implementation:

Employees must determine to participate between the period of July 1 and August 31, 1991 if they are going to seek retirement under the Local Government Early Retirement Incentive Program.

Employees must be off the payroll and have accepted retirement by September 30, 1991.

Key Features of the Program

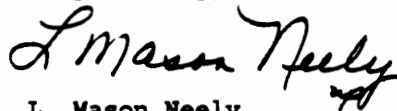
- A. There are 177,653 local government employees who are members of the Public Employees Retirement System (PERS). Approximately 6% of the total membership would be eligible to take advantage of the Early Retirement Incentive Program. It is our conjecture that approximately one third or roughly 3,000 local governmental employees would take advantage of this opportunity.
- B. Those who are 50 years of age obviously would recognize a reduction in pension allocation based upon the one quarter of one percent for each month they retire under the age of 55.
- C. The cost of providing the additional pension credits to eligible individuals can be determined by the Division of Pensions.

- D. That cost would become an accrued liability to the individual employer and would have no impact on other local governments, therefore one local government may offer the program to its employees and another local government not offer the program. The determination can be one of economics and management style.

Therefore, we request the legislation be permissive and enacted early this year so local governmental employees can effectively plan their future in consultation with their employers.

Thank you for the opportunity to be present today.

Respectfully,



L. Mason Neely
Chief Finance Officer

Attachment - Draft Bill

TABLE I

STATE OF NEW JERSEY
 PERS MEMBERS
 ANNUAL SALARIES DISTRIBUTED
 BY AGE

AGE	MEN NUMBER	WOMEN NUMBER
50	2,055	3,534
51	2,149	3,524
52	2,110	3,427
53	2,096	3,386
54	2,103	3,291
55	2,163	3,318
56	2,082	3,164
57	2,213	3,089
58	2,250	3,156
59	2,294	3,065
60	2,323	3,019
61	2,224	2,764
62	2,177	2,540
63	1,837	2,156
64	1,497	1,903
65	1,405	1,592
66	1,061	1,330
67	867	1,094
68	682	817
69	603	738
70	532	572
71	404	430
72	346	331
73	297	248
74	202	181
75	167	133
76	119	90
77	97	73
78	75	58
79	62	37
80	63	27
81	56	9
82	30	11
83	25	11
84	9	4
85	15	8
86	5	7
87	10	2
88	3	1
89	5	
90	2	
91		1
TOTAL	38,715	53,141
	38,715	53,141
	111,245	151,124
	34.80	35.16
TOTAL	91,856	35.01
	262,369	

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TABLE II

STATE OF NEW JERSEY
 PERS MEMBERS
 ANNUAL SALARIES DISTRIBUTED
 BY YEARS OF SERVICE

YEARS OF SERVICE	MEN NUMBER	WOMEN NUMBER
20	2,010	2,321
21	1,621	1,919
22	1,309	1,411
23	1,122	1,109
24	941	887
25	778	547
26	598	432
27	560	345
28	513	297
29	440	260
30	371	181
31	370	156
32	279	141
33	256	104
34	220	103
35	154	69
36	117	32
37	82	30
38	65	27
39	62	32
40	38	26
41	48	28
42	27	15
43	28	17
44	17	6
45	3	4
46	3	6
47	5	6
48	2	4
49	5	5
50	2	1
51		1
52		1
53		
54	1	2
55		1
56		
57		2
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TOTAL	12,047	10,528
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	12,047	10,528
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	111,245	151,124
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	10.83	6.97
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TOTAL	22,575	8.60
<hr/>		
	262,369	

29x

TABLE III
 LOCAL GOVERNMENTS
 PERS MEMBERS
 ANNUAL SALARIES DISTRIBUTED
 BY AGE

AGE	MEN NUMBER	WOMEN NUMBER
50	1,422	2,530
51	1,529	2,589
52	1,498	2,451
53	1,488	2,446
54	1,517	2,393
55	1,608	2,453
56	1,481	2,362
57	1,581	2,276
58	1,637	2,380
59	1,712	2,315
60	1,713	2,274
61	1,684	2,104
62	1,658	1,952
63	1,415	1,637
64	1,157	1,418
65	1,090	1,246
66	833	1,066
67	691	885
68	536	666
69	474	604
70	440	475
71	329	376
72	284	287
73	255	215
74	167	158
75	151	120
76	110	80
77	91	71
78	70	56
79	57	35
80	54	25
81	50	9
82	27	9
83	23	10
84	8	3
85	14	8
86	5	6
87	9	1
88	3	1
89	5	
90	2	
91		
TOTAL	28,878	39,992
	28,878	39,992
	75,823	101,830
%	38.09	39.27
TOTAL %	68,870	38.77
	177,653	

30x

TABLE IV
 LOCAL GOVERNMENTS
 PERS MEMBERS
 ANNUAL SALARIES DISTRIBUTED
 BY YEARS OF SERVICE

YEARS OF SERVICE	MEW NUMBER	WOMEN NUMBER
20	1,320	1,481
21	952	1,157
22	853	883
23	710	745
24	627	531
25	449	309
26	350	245
27	320	173
28	321	157
29	231	134
30	202	93
31	192	68
32	164	68
33	138	41
34	120	51
35	105	31
36	66	16
37	52	18
38	33	10
39	33	20
40	20	9
41	22	11
42	13	5
43	15	11
44	6	5
45	1	2
46	3	5
47	4	2
48	1	3
49	3	5
50	1	
51		
52		
53		
54		2
55		1
56		
57		2
TOTAL	7,327	6,294
	7,327	6,294
	75,823	101,830
	9.66	6.18
TOTAL	13,621	7.67
	177,653	

31X

MEMORANDUM

February 11, 1991

TO: William Dressel, N.J. State League of Municipalities
FROM: L. Mason Neely, Chief Finance Officer *LMM*
RE: Public Employees Retirement System (PERS)

I am writing as Chairman of the League's Pension Study Commission and because of the interest and concerns expressed to us by a number of our member communities. The concerns have originated because of initiatives forthcoming from Governor Florio which would impact State employees. Similar initiatives would be very attractive to some municipal employers as an option and an alternative to layoffs. If staff reductions or overall cost reductions could be realized through retirement incentives, it would permit mobility within the ranks ie. moving out some of the older tenured employees and lower costs associated with the benefits and salary levels. This request is not unlike the request made by Higher Education Institutions to retire some tenured professors. Finally, one must evaluate the cost of unemployment benefits versus those associated with early retirement incentives and the overall impact on staff, a number of municipal units may select the incentives if permitted through State Legislation.

Early Retirement - PERS

Currently, early retirement is permitted for anyone who has 25 years of service credits and has reached the age of 55. A one time proposal would be to permit a municipality to grant up to five years of additional service for anyone who has reached the age of 50 or older and has at least 20 years of service credit. This granting of time must be done within a certain fixed period of time and I suggest the window of opportunity not be more than three or six months. The Division of Pension has the ability to do an accrual analysis and each local unit would be obligated to make accrued liability payments over time, but it would significantly reduce the payroll during the current year as measured against the long term costs.

Normal Retirement - Medical Payments

A number of communities have opted to provide insurance coverage other than through the State Health Benefit program. Those communities are covered by N.J.S.A. 40A:10-23. The current legislation requires that the employee have 25 years of service with the same municipality or have reached the age of 62 and have 15 years of service with the same employer. Municipalities have recruited employees from State or County service and the requirements that all the service be with the same employer has caused many employees to delay retirement, slow mobility of the work force and served as a stumbling block for regionalization. It is our suggestion that 40A:10-23 be amended to provide the same conditions with regards to age and years of service, but that the requirement with the same employer be deleted. This recommendation is a permanent recommendation.

32x

Years of Prior Service

When Chapter 121, Public Laws of 1985 was adopted, it required that all temporary employees who have worked for a unit of government for at least one year be enrolled in the Public Employees Retirement System. This Law became necessary because numerous employees were continued in a provisional status as a result of the inability to provide a qualified list of employees. At the time the law was passed, employees were granted the privilege of purchasing prior service but they had to make that determination within one year from the date of entrance into PERS. The one year date was arbitrary and should be eliminated. Employees should have the privilege at any time to request a certification of costs and to purchase qualified prior service at their expense. This option would facilitate a number of senior employees who may seek retirement if they had the privilege of purchasing prior credit.

Special Veteran Retirement

Currently, discrimination results between special veterans retirement benefits offered to members of TPAF and those of PERS. A member of TPAF may receive special veterans retirement at age 60 and 20 years of service. A member of PERS must wait until they have reached age 62 and 20 years of service. If the benefits are equalized and PERS requirement is lowered from age 62 and 20 years of service to age 60 and 20 years of service, it will result in increased turnover at local levels by creating mobility in the work force and eliminate some need for layoffs.

Summary

The above four recommendations, Item 1 would be optional at the determination of the local employer. Item 2 is important on a long term manpower planning program. Items 3 and 4 will reflect individual employees choice. I believe this combination of incentives would be healthy for local governments and ask that you share the information with the required parties.

LMN/np
workid/4
cc: File

33X

PUBLIC EMPLOYEE BENEFITS

Provides additional retirement benefits for certain local government employees who retire between April 1, 1991 and September 1, 1991.

34X

AN ACT concerning retirement benefits for certain Local Government employees.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. A Local Government employee who:

a. is 50 or more years of age and has 20 or more years of service credit under the Public Employees' Retirement System (PERS); and

b. files an application to retire on or before June 1, 1991, and

c. retires under the retirement system on or after April 1, 1991, but not later than September 1, 1991,

other than a veteran who retires on a special veteran's retirement, shall receive an additional five years of service credit under PERS. An employee who meets the age and service credit requirements and retires on a special veteran's retirement under PERS shall receive an additional pension under the retirement system in the amount of 5/60 of final year compensation.

2. For a Local Government employee who:

a. is 60 or more years of age and has 20 or more years of service credit under the Public Employees' Retirement System (PERS), and

b. files an application to retire on or before June 1, 1991, and

c. retires under the retirement system on or after April 1, 1991, but not later than September 1, 1991, and

d. the local unit of government has adopted Chapter 88, Public Laws of 1974, the retirement system for PERS shall pay the premium or periodic charges for benefits provided to the retired employees and the employee's dependents, but not including survivors, under the "New Jersey State Health Benefits Program Act," P.L. 1961, c. 49 (C. 52:14-17.25), in the same manner provided for State payment of premiums or periodic charges for retired employees under subsection 3 of section 8 of the act (C. 52:14-17.32c.).

3. For local governments with employees covered under N.J.S.A. 40A:10-23, "the employer may, in its discretion, assume the entire cost of such coverage and pay all the premiums for employees who have retired on a disability pension or after 25 years' or more service with the-employer qualified pension service years or have retired and reached the age of 62 or older with at least 15 years of service with the-employer qualified pension service years, including the premiums on their dependents, if any, under uniform conditions as the governing body of the local unit shall prescribe."

4. The actuaries for PERS shall determine the liabilities of the retirement systems for the additional service credit or pensions and health benefits payments provided under this act and for the early retirement of employees in accordance with the tables of actuarial assumptions adopted by the boards of trustees of the retirement systems. These liabilities shall be added to the unfunded accrued liabilities of the local unit under the retirement systems and shall be paid in the same manner and over the remaining time periods provided for the local units unfunded accrued

liability under section 24 of P.L. 1954, c. 84 (C. 43:15A-24) and N.J.S. 18A:66-18, respectively. The local unit shall pay the cost of the actuarial work to determine the additional liabilities of the retirement systems for the benefits under this act.

5. A local government employee who receives a benefit under this act shall forfeit all tenure rights, and all rights and protection provided the employee under Title 11A, Civil Service, of the New Jersey Statutes or tenure rights under Title 40 with respect to the employment terminated by retirement to qualify for the benefit.

6. Where the needs of a local government require the services of an employee who elects to retire and receive a benefit under this act, by approval of the governing body, it may delay the effective retirement date of the employee until the first day of any calendar month after September 1, 1991, but not later than September 1, 1992. A delay in the effective retirement date of an employee shall not exceed the dates set forth in sections 1 and 2 to qualify for benefits under this act.

7. A local government employee retiring under PERS with a benefit under this act who has not repaid the full amount of a loan from the retirement system made before April 1, 1991 by the effective date of retirement, may repay the loan through deductions from the member's retirement benefit payments in the same monthly amount which was deducted from the member's compensation immediately preceding retirement until the balance of the amount borrowed together with interest at the statutory rate is repaid.

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If the retiree dies before the outstanding balance of the loan and interest is repaid, the remaining amount shall be repaid as provided in section 2 of P.L. 1981, c. 55 (C. 43:15A-34.1) or section 2 of P.L. 1981, c. 212 (C. 18A:66-35.1), as appropriate.

8. For the purposes of this act:

a. "Local Government employee" means a full time County, Municipal, or school district PERS employee, eligible to participate in the New Jersey State Health Benefits Program, or the Optional Health Benefits Program provided under N.J.S.A. 40A:10 et seq by a local government that have dropped out of the State Health Benefits Program.

b. "Final year compensation" means the compensation received in the last 12 months immediately preceding retirement in which compensation is received and upon which contributions are made by the employee to the retirement system.

9. This act shall take effect immediately.

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STATEMENT

This act provides for benefits for certain local government employees who retire under the Public Employees' Retirement System (PERS), between April 1, 1991 and September 1, 1991. Employees who are 50 or more years of age and have 20 or more years of service credit under PERS as of the effective date of retirement will receive an additional five years of service credit. Employees who meet the age and service credit requirements and retire on special veteran's retirements under PERS will receive an additional pension in the amount of 5/60 of their final year compensation. Employees who are 60 or more years of age and have 20 or more years of service as of the effective date of retirement and if the local unit is a Chapter 88 employer will receive payment of premiums for retired coverage under the State Health Benefits Program for themselves and their dependents, but not including survivors.

A Local government employee retiring under PERS with a benefit under the act who has an outstanding loan which was made prior to April 1, 1991 would have the option of repaying the balance plus interest by deductions from retirement benefit payments in the same monthly amount that was deducted from the employee's compensation immediately preceding retirement.

The cost of the benefits for PERS members will be funded through an increase to the local units contribution to the retirement systems.

Where the needs of a local government require the services of an employee who elects to receive a benefit under the act, may with

39X

the approval of the governing body delay the effective retirement date the employee for up to one year, but not later than September 1, 1992. The authorization for delays in effective retirement dates does not extend the dates for qualification for benefits under the act.

Eligibility for benefits under this act is limited to full time local government employees.

Five years of service credit would increase retirement benefits in the amount of 8.33% of final average salary, or \$833 for every \$10,000 of final average salary. The employees eligible for the benefit would have on average 30 years of service credit and a final average salary of approximately \$40,000. Their retirement benefits would be increased on average from \$20,000 to \$23,333, which represents a 16% increase. The present value of this lifetime benefit is approximately equal to one year of salary. The annual premium for employee and spouse coverage under the State Health Benefits Program for the next fiscal year will be \$4,700.

Employees who become eligible for benefits under this act accelerate retirements thereby reducing salaries and wages outlay for local governments. Hopefully, these additional benefits will serve as an incentive to a number of employees and can reduce the size of municipal work forces.

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GOOD AFTERNOON, MY NAME IS PETE MCDONOUGH, JR., AND I AM HERE TODAY REPRESENTING THE NEW JERSEY STATE POLICEMEN'S BENEVOLENT ASSOCIATION, AN ORGANIZATION OF NEARLY 30,000 MEN AND WOMEN IN LAW ENFORCEMENT. THE PBA'S MEMBERSHIP INCLUDES LAW ENFORCEMENT PROFESSIONALS ACROSS THE STATE AT THE MUNICIPAL, COUNTY AND STATE LEVEL.

PBA PRESIDENT FRANK GINESI ASKED ME TO APPEAR BEFORE THIS JOINT HEARING TODAY TO EXPRESS THE PBA'S FULL SUPPORT FOR S-1156 AND ITS ASSEMBLY COUNTERPART A-2835, AND S-1337 AND ITS ASSEMBLY COUNTERPART A-2836.

THESE BILLS WOULD ALLOW MEMBERS OF ALL OF THE STATE-ADMINISTERED PENSION SYSTEMS TO PURCHASE CREDIT FOR PREVIOUS SERVICE.

S-1156, WHICH IS SPONSORED BY SENATOR McMANIMON, WOULD ALLOW FOR THE PURCHASE OF CREDIT FOR TIME SERVED IN THE ARMED FORCES, REGARDLESS OF WHETHER THAT SERVICE OCCURRED DURING TIME OF WAR.

S-1337, WHICH IS SPONSORED BY SENATOR O'CONNOR, WOULD ALLOW FOR THE PURCHASE OF CREDIT FOR TIME SERVED WHILE A PENSIONER WAS EMPLOYED IN A TEMPORARY CAPACITY.

YOU HAVE ALREADY HEARD CONSIDERABLE TESTIMONY REGARDING THE IMPACT OF EARLY RETIREMENT INCENTIVES ON WORKFORCE, AND PAYROLL, SIZE.

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CLEARLY, I THINK WE ALL AGREE THAT EARLY RETIREMENTS ARE PREFERABLE TO LAYOFFS.

NOT ONLY DO EARLY RETIREMENTS AVOID THE PAIN OF LAYOFFS, THEY RESULT IN THE VOLUNTARY REMOVAL FROM THE PAYROLL OF HIGH-PAID EMPLOYEES.

LAYOFFS, ON THE OTHER HAND, ARE IMPOSED ON THE NEWEST, AND IN MOST CASES, LOWEST-PAID EMPLOYEES. IT IS NOT INCONCEIVABLE THAT IT CAN TAKE SEVERAL LAYOFFS TO EQUAL THE PAYROLL SAVINGS THAT RESULT FROM THE EARLY RETIREMENT OF A SINGLE EMPLOYEE WHO IS AT THE HIGH END OF THE PAY SCALE.

BOTH S-1337 AND S-1156 OFFER THE SAME INCENTIVES THAT THE GOVERNOR'S PLAN OFFERS. BUT, FROM A FISCAL STANDPOINT THEY ARE AN IMPROVEMENT OVER THE GOVERNOR'S PLAN BECAUSE THEY REQUIRE AN EMPLOYEE CONTRIBUTION FOR THE FULL COST OF THE CREDITED SERVICE. THEY ARE NOT A SIMPLE GIVE-AWAY PROGRAM.

FINALLY, S-1337 AND S-1156 WILL OFFER PAYROLL RELIEF FOR ALL GOVERNMENTAL EMPLOYERS. THESE BILLS WOULD APPLY ACROSS-THE-BOARD, THEY WOULD ALLOW OUR STATE, OUR COUNTIES, AND OUR MUNICIPALITIES TO ENJOY PAYROLL REDUCTIONS AND WORKFORCE REDUCTIONS...REDUCTIONS THAT WOULD BE WELCOME AT EACH OF THESE LEVELS.

BOTH OF THESE MEASURES ARE PENDING BEFORE THE SENATE REVENUE, FINANCE AND APPROPRIATIONS COMMITTEE. ON BEHALF OF THE PBA, I HOPE THAT YOU WILL REPORT THEM AS SOON AS POSSIBLE.

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