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24
REPORT OF THE ADVISORY COMMISSION
ON LOCAL POLICE AND FIREMEN'S PENSION FUNDS.

To

Walter T. Margetts, Jr.
Treasurer, State of New Jersey

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February 1, 1952

Honorable Walter T. Margetts, Jr.
State Treasurer
State House
Trenton, New Jersey

Dear Mr. Margetts:

I take pleasure in presenting herewith the report of the Advisory Commission appointed by you in April, 1951, to study and make recommendations with respect to the local police and firemen's pension funds established under Chapter 160 of the Laws of 1920, as amended. Attached is a draft of a bill designed to effect the recommendations of the Commission.

The drastic situation disclosed by our report has grown increasingly worse each year, and will continue to do so in the future unless constructive action is taken immediately. For this reason, the Commission strongly urges that everything possible be done to introduce the proposed remedial legislation during the present session of the Legislature. If one or more conferences with you, Governor Driscoll or any other officials will help to expedite the matter in any way, we trust that we will be called upon for whatever assistance we may be able to give.

The members of the Commission wish to express our appreciation to Mr. W. Harold Bittel, of the Department of Banking and Insurance, for his cheerful cooperation and invaluable actuarial advice, and to Mr. Reynier J. Wortendyke, Jr., counsel for the State P. B. A., for assistance in drafting the proposed legislation. Above all, however, the Commission is indebted to its secretary, Mr. Steven E. Schanes, of the New Jersey State Chamber of Commerce, who not only developed the details of the 30-year amortization plan suggested by the Department of Banking and Insurance, but who also attended numerous meetings of various police and firemen's organizations to explain the plan to them and who then bore the burden of the actual preparation of our report.

Very truly yours,

Harry V. Osborne, Jr.
Chairman

HVO.Jr/L.

INTRODUCTION

There are 203 municipalities within the State of New Jersey which have police and firemen's pension funds, established under Chapter 160 of the Laws of 1920, as amended. While the municipalities, the State, and the employees contribute to these funds in accordance with the provisions of this Act, substantial deficits have arisen because the required contributions are insufficient to support the pension benefits. As a result, local taxpayers are presently required to contribute additional sums of money to meet current pension obligations. On September 25, 1950, the State Department of Banking and Insurance issued a report indicating that these local funds had a combined deficit of over \$209,000,000. The insolvency of these funds, along with the tremendous financial burden they impose, is a matter of very serious concern to municipal officials and taxpayers, as well as the police and firemen.

On April 9, 1951, State Treasurer Walter T. Margetts, Jr., appointed the Advisory Commission on Local Police and Firemen's Pension Funds for the purpose of recommending some solution to this entire problem. This report contains the Commission's findings and recommendations. The legislation necessary to implement these recommendations is submitted as a supplement to this report.

In developing its recommendations, this Commission studied the past history of the local police and firemen's pension funds in order to understand fully the basis of the present deficits. The results of this study are presented in Chapter I of this report not only for informational purposes, but also to point out the importance of proper planning in the establishment of retirement systems for public employees.

Harry V. Osborne, Jr., CHAIRMAN

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Steven E. Schanes, Secretary

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CHAPTER I

A SHORT HISTORY OF THE 1920 PENSION FUNDS

A. The Situation Before 1920

The origin of the financial crisis now facing the local police and firemen's pension funds can be traced as far back as the year 1885. At that time the first public pension law of the State of New Jersey was enacted, permitting cities to provide pensions for policemen after 20 years of service and having reached the age of 60 or becoming incapacitated. This was followed in 1887 by what may properly be considered the forerunner of the 1920 Law. Any city acting under the 1887 law as amended was required to retire, upon request, any policeman who had served 20 years and reached the age of 50, or who became incapacitated for further duty at any time during his service. The Law specified that the annual pension was to equal one-half salary, but permitted municipal discretion as to whether the employees should contribute toward this pension or whether a pension fund should be established. One year later, 1888, the first firemen's pension law was enacted, permitting cities to provide certain disability and death benefits to firemen after twenty years of service.

In the period from 1887 to 1917, 26 laws were passed affecting the retirement of policemen and firemen. By 1918, 55 funds had been established covering 3,000 out of a total 3,700 policemen and 2,150 of the State's 2,300 paid firemen. The pension benefits provided by these laws differed widely. Service requirements prior to retirement ranged from 20 years and 50 years of age to 25 years and 55 years of age, or 20 years and 60 years of age. While the service retirement pension was generally one-half of salary, disability and death benefits varied considerably. To some of the funds the members made annual contributions. To others they did not. It should be noted that during this period the retirement of policemen and firemen were treated separately. Several municipalities had both police and firemen's pension funds.

Most of these early pension funds were supported by four different

revenue sources (two of which were governmental).

1. The members contributed from 1 to 2 percent of salary.
2. The municipality annually contributed an amount equal to a fixed percentage of the employees' salaries. This varied from 1 to 4 per cent.
3. Municipal revenues from miscellaneous sources, such as a percentage of the tax on the premiums of foreign insurance companies within the municipality, permits and dog taxes, and fines on members, were dedicated to the funds.
4. The proceeds of social events sponsored by the pension fund members were placed in the funds.

Because of the uncertainty of the amounts obtained from dedicated revenue and the sporadic money raising activities, the receipts of individual funds varied greatly from year to year. On the basis of a percentage of employees' salaries, in any one year the revenues of the individual funds ranged from 1 to 11 per cent. This unstable revenue base proved most unsatisfactory within a few years after the establishment of the funds. As the number of pensioners rose and the demands upon the pension funds increased, any drop in these miscellaneous revenues placed the funds in a critical position. In some cases the funds experienced deficits within two years after their establishment, thus necessitating a cut in the anticipated pension, or an additional contribution by the municipality.

However, even more important than the fact that the funds were hard pressed from the outset to meet their obligations was the fact that no attempt was made to have the annual revenues of the funds relate to the ultimate cost of the pension benefits.

In 1917, the State Legislature created a Pension and Retirement Fund Commission to study the entire question of pensions for public employees. In the course of developing recommendations for an overall retirement policy, this Commission made a thorough study of the condition of the various pension funds then in operation, including the local police and firemen's funds. Referring to all

local funds in general, the Commission used the word "chaotic". In its report to the Legislature, the Commission attempted to give an indication of what was in store for the various funds. That the present burden of the police and firemen's pension funds should not have been unexpected is indicated by the following paragraph:

"During the early period of operation of a pension system, only a small part of its total liabilities matures for payment. With each new year another portion of its liabilities is presented for payment and is added to the liabilities already outstanding. As the amount of pension added each year is bound to exceed for some sixty or seventy years the amount liquidated through deaths among the pensioners previously retired, the pension disbursements grow from year to year. The bulk of its liabilities would begin to mature for payment only some forty or fifty years after the system has been established. It is only then that the system would begin to bear the heaviest part of its load. The annual disbursements would then be many times greater than those at the beginning."

Since it is now indicated that the peak load of payments from 1920 pension funds will come sometime between 1960 and 1970, there can be no doubt that the Commission's "prediction" has proved correct.

The Commission emphasized the importance of financing any pension system on the basis of an actuarial evaluation of the liabilities created by the proposed pension benefits:

"Just as in an insurance company every policy holder is a liability, a 'risk' on the company, so in a pension system every employee, even the youngest employee, is a liability, a 'risk' on the system, which can be actuarially determined. In order to be able to fulfill its promises, a sound pension system must plan far ahead, always some sixty or more years into the future. It must determine with the aid of an actuary, as the insurance companies do, the amount of aggregate liabilities to all its present members which would mature at different times in the future. Then it must determine what total assets it will realize in the future from the contributions which its present members will make during their lives and from other revenues. And it is only if the assets ascertained in this way equal the liabilities so determined that a pension system can be considered financially solvent."

The necessity of building up a large reserve, rather than living from hand-to-mouth, was also stressed:

"If the system provides from the very outset an adequate reserve against its total liabilities, then, with the aid of this reserve, it can carry the tremendous load of the future without breaking down. Unless an adequate reserve is provided, there is no assurance that the system will be able to keep all its promises."

None of the then existing pension systems met the above requirements, hence all were doomed to insolvency. The local police and firemen's pension funds of today do not meet these basic requirements of a sound retirement system.

To emphasize the financial aspects of the benefits promised under police and firemen's pension funds, the Commission analyzed the cost of the various benefits in terms of the annual percentage of salary which would be needed to be set aside immediately. This analysis covered not only new employees but also what would be required to meet the pension rights of the existing employees. As a result, the Commission found that:

"..... in order to be financially solvent a typical police pension fund must start with a total annual contribution of 17.13 per cent of salary, which would gradually decrease to a normal contribution of 8.34 per cent in the course of 60 years, and a typical firemen's fund must start with a contribution of 13.20 per cent of salary, which would gradually decrease during the same period of 60 years to 7.77 per cent."

These required percentages of salary, 17.13 in the case of policemen and 13.20 in the case of firemen, were far above the amounts actually being contributed to the funds. The Commission noted that nearly three-fourths of the police pension funds began with a total revenue amounting to less than five per cent of salary. From their inception, therefore, the local police and firemen's pension funds were building up deficits at a rapid pace. Thus the burden of providing for the pensions was passed on to the taxpayer of the future by those who were receiving the service for which the pension was created. As stated by the Commission:

"..... a pension system which does not operate on a reserve basis is financially unsound and inequitable as between the present and future generations of the tax paying public, because the generation which sanctions the establishment of a pension for a service which it enjoys, and at the same time does not cover its share of the pension cost, escapes with a comparatively slight share of the burden, while the heaviest load is being shifted upon future generations."

Among the Commission's recommendations with regard to public pension systems in general was the following:

"That a reserve basis be adopted as the policy for all future legislation in connection with pension and retirement funds; that contributions be based on definite actuarial calculations, and that no bills for the creation of pensions

be considered by the legislature without actuarial valuations of the liabilities entailed by the bill accompanying same."

B. The Act of 1920

One aspect of the confusing provisions of the various local funds was resolved by the passage in 1920 of a single uniform retirement law, covering all retirements of police and firemen. This law, Chapter 160, not only standardized the operation of existing funds, but also included all local funds to be established in the future.

The details of Chapter 160, Laws of 1920, are presented in Appendix A. Summarized briefly, the major provisions were these:

1. All existing funds were brought under the provisions of this act.
2. Administration of the funds was vested in a local commission. In municipalities having a police and firemen's fund, the commission consisted of five members - the chief municipal executive, the chief financial officer, a policeman, a fireman, and a lay citizen selected by the other four. In the case of municipalities having either a police or a firemen's fund, the Commission consisted of three members the chief municipal executive, a member of the fund, and a lay citizen selected by the other two.
3. Retirement on a pension of one-half of final salary was permitted at age 50 with 20 years of service or in the event of service-connected permanent disability. Such retirement was made compulsory at age 65 with 20 years of service.
4. In the event of the death of a member, while in active service or after retirement, a pension of one-half last salary, up to a maximum of \$1,000, was extended to the widow. Upon her death benefits were extended to the children up to the age of 16.
5. Members were required to contribute 2% of their salary. If a member wished to have the death benefit coverage after retirement, he continued to make the same contribution to the fund.

- 6. Municipalities were required to contribute an amount equal to 4% of the total salaries of the employees. In addition, the municipality was required to make up those annual pension obligations which the funds were financially unable to meet.
- 7. The funds also received revenues from miscellaneous sources, such as fines imposed upon members, one-half of rewards, and one-half of the 2% tax paid by foreign insurance companies.
- 8. Any municipality not having a retirement system for its police or firemen could come under the provisions of this act by simple majority vote at any general or special election.

This law differed widely from the proposed pension act for police and firemen recommended in 1919 by the State Pension and Retirement Fund Commission. The benefits were more liberal than under the majority of local funds existing prior to 1920; while the Commission recommended raising the age and service requirements above the existing level. The required rates of contribution by the municipalities and members were not greatly different from that which already existed; while the Commission proposed that the rates be raised so as to provide for the benefits on an actuarial reserve basis. By enacting Chapter 160, Laws of 1920, the State Legislature and the Governor therefore rejected the recommendations of the State Commission.

Not only were the specific recommendations with regard to the creating of a uniform police and firemen's retirement system rejected, but the general recommendation for overall policy in establishing any retirement system, noted above, was also ignored. The actuarial evaluations were not heeded; the importance of providing adequate reserves was overlooked. The failure to provide adequately in 1920 for the cost of the pension benefits lies at the base of the present critical condition of the local police and firemen's pension funds,

C. Report of the New Jersey Pension Survey Commission, 1932

The financial implications of the 1920 Act were not studied until 1930, when by Joint Resolution, the State Legislature created a seven-member Pension

Survey Commission. This body was directed to study the financial aspects of all local and State pension systems. Its main report with regard to these funds was presented in two parts; the first dealing with the present situation as revealed by actuarial evaluation, the second presenting recommendations for improvements. A substantial part of the Commission's report dealt with the local police and firemen's pension funds.

The Commission found that as of 1931 there were 108 local funds operating under the 1920 law. These covered 11,153, or approximately 72%, out of a total of 15,413 active paid police and fire personnel within the State. At the same time there were 2,116 pensioners with an annual pension roll of \$2,122,000. The statistics collected by the Commission indicate that in 1931 the contributions to the funds required by law were over \$190,000 less than the pension payments. Thus while the funds had a combined total of \$3,269,000 in assets, they were already experiencing an annual deficit.

In order to evaluate the ultimate cost of the 1920 Act, the Commission examined first the rates of contribution required by law. It was found that these averaged 7.17% of the members' salary. Of this, the members paid an average of 2.17% of salary.*

Next, the pension benefits provided by the law were evaluated in terms of the annual contribution actually necessary to support them for a new employee. This was found to average 15.67% of salary.

The Pension Survey Commission pointed out, however, that this did not constitute the full rate of contribution necessary to support the pension benefits for the existing membership. Inadequate contributions had been made in the past on behalf of the members, resulting in an additional "accrued liability". It was determined that the annual cost of amortizing this accrued liability was 10.27% of salary for a period of thirty years. Thus the total annual rate of contribution necessary to support the benefits provided by the 1920 Act was 25.94% of salary, as

* Contributions which could be made after retirement made the average member's rate a little over 2 per cent.

opposed to the 7.17% required by law. The actual dollar value of these figures was presented by the Commission as follows:

<u>Payment</u>	<u>Annual Contributions As Percentage of Payroll</u>	<u>Amount Based on 1931 Payroll</u>
Normal Contributions	15.67%	\$4,343,982
Accrued Liability Contributions	<u>10.27</u>	<u>2,847,013</u>
Total Required to Support Funds	25.94%	\$7,190,995
Members' Contributions at Present Rate	2.17%	\$ 601,560
Contributions of Municipalities	4.00	1,108,866
Present Revenues from Other Sources	1.00	277,216
Additional Revenues Needed	<u>18.77</u>	<u>5,203,353</u>
Total	25.94%	\$7,190,995

An additional annual contribution of approximately \$5,200,000 was needed, therefore, to place the existing pension funds on an actuarial reserve basis. In any municipality in which no pension fund existed as of 1931, the above table meant that establishing a fund involved the assumption of liabilities equal on the average to an annual payment of 23.77% of salary.

In order to complete the picture, the Commission made a valuation of the assets and liabilities of the 108 existing funds. This valuation indicated that there was a total deficit of over \$99,500,000 in the local funds.

It should be noted that the figure of \$99,500,000 was a "present value" figure; that is, it represented the amount of money necessary to be set aside immediately, drawing 5% interest, to liquidate the future pension obligations. The actual pension payments requiring municipal deficiency contributions would therefore have been greater by the amount of the anticipated interest.

Briefly summarized, the Pension Survey Commission recommended that the situation be corrected through the following steps:

1. The establishment of a State-wide retirement system, administered by a board of trustees in accordance with actuarially sound principles.
2. The raising of the requirements for service retirement so that in order to receive a half-pay pension an employee would have to be

at least 60 years of age and have served 35 years. (Upon reaching age 60, the employee would be entitled to a retirement benefit equal to 1/70 of salary multiplied by the number of years served.)

3. The reduction of pension benefits extended to dependents upon the death of the employee after retirement. There was, however, to be no change in such benefits already being received.
4. The fixing of rates of contribution by both the members and the public on the basis of actuarial evaluation varying with the age at which the member entered public service. The Commission stated that this would require a rise in the rate at which the members were contributing from 2.17% to an average of 4.09% of salary. At the same time the normal contributions of the public (including miscellaneous revenues) would remain at 5.00%, with an additional tax supported contribution of 5.88% to liquidate past liabilities.

The Commission estimated that the savings to the public under this proposal would be approximately \$55,500,000. For the most part the proposed changes were based upon the provisions of the actuarially sound State Employees Retirement System.

With regard to public pension policy in general, the Commission was very much concerned with State legislation permitting the establishment of unsound local pension funds. The first of the Commission's major recommendations reads:

"The Commission recommends that the laws of New Jersey which now make it permissive for a municipality or a county to adopt a pension plan on an unsound financial basis be suspended to the extent that communities desiring to establish funds in the future will establish only funds for which the cost is known and which are on a sound financial basis from the outset. The adoption of this recommendation will prevent the further establishment of unsound plans."

A bill was introduced at the 1932 session of the State Legislature which would have given effect to the above recommendation. In addition, a bill was introduced which would have established a new "State Police and Firemen's Retirement System of New Jersey", in accordance with the Commission's proposals. Both of

these bills failed to pass.

With regard to the local police and firemen's pension funds, therefore, the recommendations of the Pension Survey Commission were rejected by the State Legislature. In 1935, member contributions were raised to 4% of salary. However, these added contributions were somewhat offset by a liberalizing of the disability retirement provisions of the law to include non-service connected disability, which increased the fund liabilities (Chapter 171, P. L. 1935).

D. Status of the Funds in 1940

Lack of regard for the warnings and advice of two State Commissions led to a further deterioration of the 1920 pension fund situation. The number of local funds increased and the number of members continued to rise, with each new member adding to the large, unfunded liability. In 1940, a study of the immediate status of the local funds was undertaken by the Department of Governmental Research of the New Jersey State Chamber of Commerce. While the operation of a pension fund at any one particular time does not give a picture of eventual assets and liabilities, the facts collected by the State Chamber showed that the pattern which had been established before 1920 was holding true. As had been forecast by the 1917 Commission, the burden upon the municipalities was continuing to grow, so that by 1940 municipal deficiency contributions were greater than the normal contributions required by law. Taken together these municipal contributions were equal to approximately 9.6% of payroll.

It should be noted that statistical data concerning the operations of the local funds has always been hard to obtain, principally because they are purely local in structure and do not report to any central agency. There is a gap of 13 years from 1918 to 1931, for which little information is obtainable. Furthermore, the next official collection of statistics, following that of 1931, occurred in 1949. The information collected by the State Chamber in 1940 is, therefore, very helpful in understanding the history of the 1920 pension funds, and for this reason is included in this report. In brief, the State Chamber found the following:

Number of Funds	190
Number of Members	14,655
Members' Contributions	\$1,103,077
Municipal Normal Contribution	\$1,098,914
Municipal Deficiency Contribution	\$1,550,403
Share of Foreign Insurance Taxes	\$ 213,271
Pension Payments	\$3,975,512
Fund Assets (Dec. 31, 1940)	\$4,950,616

*Based on data from 173 of 190 funds. 1940 information from 17 funds, some of them newly created, was not available. All, however, were minor in size.

In 1940, pension payments exceeded normal fund receipts in 64 funds, as compared with 32 funds in 1932. This resulted in the large municipal deficiency contribution of \$1,550,000. It was obvious that this burden upon the municipalities would continue to rise, as the pension rolls grew.

E. The Amendment of 1944

While information on all the local funds is not available for 1944, it is indicated that total municipal deficiency contributions had risen greatly by that year. The "explosive" growth of these deficiency payments is indicated by the experience of seven of the larger funds, as follows:

<u>Municipality</u>	<u>MUNICIPAL DEFICIENCY APPROPRIATIONS*</u>		
	<u>1932</u>	<u>1940</u>	<u>1944</u>
Atlantic City	\$ 0	\$ 120,000	\$ 164,000
Camden	61,000	120,000	190,000
Elizabeth	0	13,000	66,000
Jersey City	178,000	408,000	507,000
Newark	125,000	374,000	532,000
Paterson	50,000	62,000	135,000
Trenton	0	70,000	135,000
Totals	\$414,000	\$1,167,000	\$1,729,000

* These amounts have been rounded off to the nearest thousand

The seriousness of the situation led to a series of conferences among representatives of the employee groups, taxpayer groups, municipal officials, and State officials, in an attempt to strengthen the local funds. As a result of negotiation, a compromise was reached which, while not placing the pension funds on an actuarially sound basis, did constitute a major step toward improving their

condition. The details of the changes made in the pension law are presented in Appendix A. Briefly summarized, the major changes were these:*

1. The membership was divided into two groups:
 - A. "Active" (uniformed) members, who could retire at age 53 after 25 years of service.
 - B. "Employee" members (running no employment risks), who could retire at age 60, after 25 years of service. This differentiation recognized the fact that certain employees, such as clerks, of police and fire departments do not actually engage in hazardous police or fire work and, therefore, should not receive the same pension coverage as those persons undergoing these risks
2. The pension was based upon the average salary received by the member during his last five years of service. This was for the purpose of eliminating the problem of the employee who received an unusually high raise in salary in his last year prior to retirement in order to obtain a high annual pension.
3. The pension upon retirement for disability not incurred in line of duty was limited to one-third of this average final salary, as were the benefits payable to dependents upon the death of a member occurring not in line of duty.
4. Both the members and municipalities were to contribute 5% of salary to the local pension fund.
5. No new local police and firemen's pension fund could be established under Chapter 160, Laws of 1920. Instead, a State-wide actuarially sound Police and Firemen's Retirement System was created, covering all new police and fire employees.
6. The State agreed to contribute \$1,000,000 annually, in addition to the foreign insurance tax distribution, to the support of the local

* Chapter 253, P.L. 1944. It should be noted that any member who had already qualified for retirement retained all previous rights and benefits.

funds.* However, in order to conform to Federal policy with regard to the use of highway user revenues, this state aid was to be distributed to all municipalities on the basis of the amount of street and highway protection afforded, using the number of uniformed police and firemen as the guide. In practice this has meant that certain municipalities not having local police and/or firemen's pension funds have received a portion of this state aid. Thus not all of the annual \$1,000,000 grant has been used to support the local funds.

This combination of reducing the existing liabilities through the reduction of pension benefits, eliminating additional liabilities through the closing of membership to the funds, and raising of assets through increased contributions by members, municipalities, and State, substantially improved the financial status of the 1920 funds. However, the increased contributions were still far below the amount necessary to meet the obligations imposed by even the reduced pension benefits. Moreover, within a few years the liabilities were again increased through the restoration of certain benefits and the addition of others.

F. Amendments Since 1944

Since 1944, several amendments have been made to the pension fund law, the principal of these coming in 1947. At that time, the service retirement qualification for "active" members was reduced to 51 years of age, after 25 years' service. The non-service connected death and disability benefits were restored to the pre-1944 level. Pension benefits were to be based upon an average of the last three years' salary prior to retirement. The contribution of the retired members was reduced to 2 1/2% of pension.

In 1948, the benefit payable to the widow in the event of death while on duty was raised to \$1,500, with benefits to dependent children also raised. In addition, all dependency benefits were extended to children up to the age of 18 instead of 16.

The provisions of the pension law at present are presented in Appendix A.

* Chapter 254, P.L. 1944.

G. The Report of the State Department of Banking and Insurance, 1950

On September 25, 1950, the State Department of Banking and Insurance issued a report on the condition of local police and firemen's pension funds. This study had been ordered by Governor Driscoll and consisted of an actuarial valuation of the 1920 funds.

The valuations were made as of July 1, 1949. At that time it was found that there were some 200 funds having a combined deficit of \$209,110,636. This deficit took into account the value of the future contributions of the members and municipalities, as well as current fund assets. It should be noted, however, that \$209,110,000 represented the "present value" of the deficit, that is, it represents the amount of money necessary to be set aside in one lump sum, drawing 3% interest, to pay the future pension obligations. Even though the pension funds are closed to new employees, payments to pensioners and their beneficiaries under the 1920 Act will continue through the year 2000. The actual deficiency in terms of pension payments during the life of the funds may well be approximately \$340,000,000. The report indicates that to amortize the deficit by 30 annual payments, at 3% interest would require \$10,646,515 annually, for a total of over \$319,000,000. These figures do not include present revenues from the State. Taking these into consideration, the annual payments over a 30-year period would be approximately \$9,000,000.

With regard to the size of the fund deficits, the report states:

"It will be noted that the deficits are large. The principal reason for this is the inadequacy of contribution rates in the past, although the upward adjustment in salaries in recent years has been a contributing factor."

The most important statistics contained in the valuation summary of the report of the Department of Banking and Insurance are presented on page 15.

VALUATION SUMMARY

<u>Group</u>	<u>Number of Active and Pensioned Members and Beneficiaries</u>	<u>Present Assets July 1, 1949</u>	<u>Liabilities July 1, 1949</u>	<u>Annual Payments to Provide For Deficit in 30 Years 1st Payment July 1, 1951 at 3% Interest</u>			<u>*Net Annual Payments Required if State Allocations are Unchanged in Future</u>
				<u>Deficit July 1, 1949</u>	<u>Apportionment By State in 1949 Under R.S. 43:16-5d and Chapter 254 of Laws of 1944</u>	<u>Total</u>	
Newark	2,679	\$ 95,089	\$40,383,290	\$ 40,288,201	\$ 2,051,793	\$ 271,573	\$1,780,220
Jersey City	1,844	137,283	31,487,523	31,350,240	1,571,409	177,576	1,393,833
Bayonne	528	9,701	7,978,356	7,968,655	406,542	54,015	352,527
Elizabeth	493	26,725	6,854,489	6,827,764	351,969	52,887	299,082
9 Medium Sized Pension Funds	1,516	1,221,327	21,988,517	20,767,190	1,061,714	169,158	892,556
79 Small Sized Pension Funds	1,443	2,404,599	19,774,114	17,369,515	890,831	173,809	717,022
All 200 Pension Funds, Including Above	14,504			209,110,636	10,646,515	1,530,949	9,115,566

* These would be in addition to the contributions by members and municipalities as provided by statute. The liabilities and deficits shown in this Valuation Summary both take into account the present value of these contributions.

CHAPTER II

THE PROBLEMS FACED BY THE ADVISORY COMMISSION

A. The Implications of the Deficit

The large annual deficiencies now being experienced by the various local funds may be considered as the "symptom" of the deficits of the funds. Yet, under the present law only this symptom is being met, through the annual municipal deficiency contributions. Nothing is being done at present to solve the major problem on a scientific basis. Thus, as the number of pensioners increases in the future, and the normal contributions required of members and municipalities decreases, the municipal deficiency payments will continue to rise. Analysis of the actuarial report of the Department of Banking and Insurance indicates that these annual deficiency contributions will rise to approximately \$10,000,000 by 1964, assuming the continuation of present state moneys. Without present revenues from the State, this annual deficiency peak would approximate \$11,500,000. These payments will continue in decreasing amounts up to the end of this century.

The municipalities are required, under the 1920 Pension Act as amended, to make up all annual deficiencies. Assuming that this provision of the law remains unchanged, this will mean a substantial rise within 12 years in municipal expenditures, hence in the local property tax rate. It will become, therefore, a major source of concern to many municipal officials.

Likewise, from the point of view of the property taxpayer these local pension funds will become a matter of greater concern with each passing year. Faced with a multitude of taxes from all levels of government, he may very well rebel at the local level where he is most effective. It is not inconceivable that such a reaction would lead to a municipality's refusing to honor the pension benefit obligations, or to an amendment to the Pension Act removing the mandatory nature of the deficiency contributions.

Whether such a move could be defeated by court action or not, such a turn of events would have a disastrous effect upon the morale of all active police

and fire personnel, and the effectiveness of local government would be impaired.

It is the conclusion of this Commission that a program of providing for the total deficit, rather than merely for annual deficiencies, should be undertaken immediately. This program should be set up in such a way as to safeguard the pension benefits of the members while not placing too heavy a tax burden upon the municipalities.

B. The Problem of Funding the Deficit

If it were financially feasible, the best possible way of funding the deficit would be to set aside immediately a sum of over \$200,000,000 which, invested at 3% interest, would completely cover the municipal deficiency payments. This lump sum payment would permit the ultimate saving of more than \$100,000,000 over the present method of operation. However, since such a large sum is not available, the Commission looked for a financing program which would still permit savings to be obtained, yet would be within the financial means of the State and local governments. Such a program was suggested by the report of the Department of Banking and Insurance:

"It would appear that the most practical solution to the deficit problem would be the amortization of the deficits by fixed payments over a period of years. Three per cent appears to be a reasonable interest basis for the amortization and the period should be long enough so as not to throw too heavy a burden on the municipality or the State and yet short enough so that reserves can be built up to provide for future pension payments. The period of thirty years would meet these requirements....."

Upon study and consideration, the Commission found that a thirty-year period program of amortizing the deficit would best meet the requirements set out above. This program would require the annual contribution of approximately \$9,000,000 in addition to present State revenues, for thirty years in order to meet future obligations under the 1920 Pension Act. It is estimated that ultimate savings of approximately \$18,000,000 could be effected through the earning of interest.

In analyzing the question of the desirable number of years over which the amortization program should extend, the Commission considered both shorter and

longer periods than thirty years. It was found, however, that a period less than thirty years, such as twenty or twenty-five years, would require too large an annual contribution. On the other hand, a period of thirty-five or forty years would not permit the building up of reserves adequate to meet the annual pension obligations and gain substantial amounts of interest at the same time. The thirty-year program would require annual contributions which would initially be higher than the deficiency contributions, but if properly approached, the additional immediate burden should not be too great.

The Commission approached the problem of providing for the fixed annual contribution by first investigating the possibility of additional contributions from the members of the local fund. In this connection, the actuarial study states:

"The first question which arises with respect to the funding of the current deficits is whether the members' contributions of 5% of salary could be increased sufficiently so that a substantial part of the deficit would be taken care of by the increased future contributions of the members. Since the average attained age of the members at the date of valuation was about 49, the present value of 5% of future salaries was small compared with the present value of future liabilities. Even if the rate of contributions of members is increased from 5% to 10%, the value of future contributions would still be small compared with the value of future liabilities." (Italics ours.)

Since the study presented the situation as of 1949, obviously the passing of time has further reduced whatever minor savings were possible through increased members' contributions.

The Commission secondly studied the effect on the deficit of reducing the pension benefits provided by law to the 1944 level, thus reducing the liabilities. On this question the actuarial advice of the Department of Banking and Insurance was sought. It was indicated to the Commission that because of the advanced age and length of service of the members, very little, if any, economies could be effected by this means. Furthermore, a large number of the members are now eligible for retirement under the present service retirement provisions of the pension law. The attempt to raise these requirements might well result in wholesale retirement throughout the State, greatly aggravating the condition of the local pension funds.

It was therefore concluded that there would be no financial gain through the reduction of pension benefits or the raising of the members' rate of contribution.

The Commission next studied the question of increased governmental contributions. It was found that the rise from the present level of deficiency contributions to that necessary to amortize the deficit over thirty years would be too great for the municipalities to bear alone. Immediate additional State aid would, therefore, be necessary in order to put this program into operation.

C. The General Question of Additional State Aid

The Commission is aware of the fact that there is a tendency for a demand for State aid to arise immediately whenever some municipal function encounters financial difficulties. It is not this body's intent that the local police and firemen's pension funds be placed in this category. On the contrary, the Commission first considered the amount of additional municipal contributions which would be required under its recommendations. Secondly, the Commission considered the question of whether there was any justification, outside of economic expediency, for a request for additional State aid. In this connection, study was made of the historical relationship between the State and the local funds, as presented in Chapter I.

Several facts stand out as a result of such analysis. The passage of Chapter 160, Laws of 1920 placed the 55 existing local police and firemen's pension funds under a uniform code. However, this act was patterned after the most liberal, hence the most costly, of the pre-existing pension laws. At the same time the Legislature did not provide for contributions sufficient to meet these costs. Any new municipality wishing to provide its police or firemen with pension coverage had to come under this pension law. Three separate actuarial studies, made over a thirty-year period, indicate that each new fund was doomed to insolvency from the outset because of the low contribution rates provided by law. At the present time, therefore, there are 203 municipalities which, while complying with State law, are incurring continually increasing pension liabilities.

The Commission concludes that the State has a definite responsibility with regard to the existing \$209,000,000 deficit. While the State has already recognized a degree of responsibility through its annual grant of \$1,000,000 since 1944, the actual financial obligations imposed by the Pension Act require that this grant be increased. The net additional cost to the State and the municipalities of the Commission's recommendations is discussed in Chapter V.

This Commission is not taking the position that the State has a financial responsibility with regard to all laws establishing various types of unsound municipal pension funds. It is the widespread number of police and firemen's funds along with the "semi-mandatory" nature of their establishment that underlies this special State responsibility.

D. The Question of Consolidating the Local Pension Funds

Experience has proven that actuarially sound pension funds are best for both public employees and taxpayers. While retirement systems which are operated on an actuarial basis generally cost more initially, in the long run they are far less expensive than systems employing the pay-as-you-go method of financing. Perhaps the elimination of a "crisis period" is their most useful function. The reports of both the Commission of 1917 and that of 1932 recommended that the police and firemen's pension problem be approached from the viewpoint of placing the funds on such a footing. In recommending the funding of the deficit through high annual municipal and State contributions, this Commission is actually recommending the placing of the whole pension structure on an actuarial reserve basis. By contributing these moneys in accordance with actuarial findings, the public is assured that at the end of thirty years the full obligations of the Pension Act will have been met.

It is difficult to employ actuarial techniques with regard to pension funds having a small membership. With small groups, actuarial tables, based upon the experience of large groups, are not likely to give reliable results. Yet at the present time 162 of the 203 local pension funds have less than 50 members, including pensioners, and 81 funds have less than 10 members each. Not only would

it be very hard to finance the deficits of these small funds on an actuarial reserve basis; experience has proven that it is extremely difficult to obtain sufficient information for actuarial purposes from a number of the larger funds. The Commission therefore concluded that sound financing required the consolidation of the local funds into one statewide centralized pension system.

The outstanding problem in connection with consolidation of the various local pension funds arises out of the fact that certain individual funds have considerable assets at the present time. Of these funds, a number are experiencing a reduction of assets in order to meet pension payment requirements and, therefore, are already on the road toward municipal deficiency contributions. Others, however, still find their assets increasing each year. While these individual funds appear to be going against the general pattern, it would be wrong to assume that any one of them is financially sound. The estimates of individual fund liability, contained in the actuarial study, reveal that in every case the liabilities of these funds far exceed their present assets.

There are a number of reasons for the existence of these growing assets. In certain cases the funds are comparatively "young"; that is, the age of the membership and/or length of service is far below the average for all funds. Thus the number of pensioners is low and the normal contributions, including state aid, exceed pension payments. In other instances the municipalities have been contributing sums greater than those required by law, in order to build up interest-earning reserves in advance of the heavy pension load peak. While such practices are not based upon actuarial determinations, certainly those persons responsible within the individual municipalities are to be commended for their foresight. In still other cases, the normal pattern of retirements, disabilities, and deaths has not held true. This may be purely accidental, or certain municipalities may have employment practices tending to raise the age of retirement above the normal trend.

In consolidating the local pension funds, it would obviously be unfair to combine all assets and apply them against total fund liabilities. This would penalize those funds now having considerable assets. The Commission concluded that in the assessing of municipal contributions, the assets of each municipality should be determined separately and proper credit be given as an offset to the municipality's liabilities. This would avoid any indirect subsidizing of one municipality by another.

The problem of administering the new centralized pension system was analyzed by the Commission from the standpoint of the experience of the Police and Firemen's Retirement System of New Jersey. It was concluded that for the most part, the method of operation of this latter system could be applied to the proposed system with good results. However, the great number and wide variety of local pension funds led the Commission to recommend that the administration of the proposed system be directed by a somewhat larger pension commission.

CHAPTER III

RECOMMENDED SOLUTION TO THE PROBLEM OF
THE LOCAL POLICE AND FIREMEN'S PENSION FUNDS

1. All local funds would be centralized at the State level.
2. The new "Consolidated/Police and Firemen's Pension Fund" would be under the administration of a new State Commission - to which all applications for pension benefits would be made.
 - a. The Consolidated Pension Fund Commission would consist of nine members, two of whom would be elected by the policemen and two of whom would be elected by the firemen who are members of the fund. Of the other five members, four would be appointed by the Governor and one would be the State Treasurer, ex officio.
 - b. There would be a secretary and staff who would handle the actual administration of the Fund.
 - c. The Commission would be provided with actuarial assistance in order to determine the municipal and State contributions to the fund. Periodic valuations would be made to determine any necessary adjustments in these amounts.
 - d. The Commission would have available medical assistance for the evaluation of certain pension claims.
3. The investment of the funds would be under the direction of the Division of Investment of the Treasury Department. The Commission would be represented on the State Investment Council. A minimum of 3% interest would be guaranteed by the State.
4. There would be no change in the pension benefits as now provided by law or in the rate of contribution of the members. Members would contribute to the fund by way of the municipality which is now deducting the contributions from their salaries.
5. Municipalities would contribute to the fund on the basis of the individual

municipal liability per member.

- a. The present normal contribution made by municipalities would be forwarded to the consolidated fund.
 - b. The additional municipal liability per member would be determined by the actuary. This would take into account the present assets of local funds which have been transferred to the Consolidated Fund.
 - c. A fixed 30-year annual amortization payment would be determined on the basis of this liability.
 - d. The municipalities would annually contribute an amount equal to 65 2/3% of this figure. (Approximately \$7,000,000, in total, annually)
 - e. Municipalities would also be charged a fee for administration on a per member basis.
6. The State would contribute over a 30-year period the amounts necessary to meet the remainder of the deficit. (Approximately \$3,500,000 annually)
- a. The annual figure would be certified to the State Treasurer by the actuary.
 - b. The present State aid to the local funds would be discontinued.
7. All State payments to the consolidated fund would be made through the annual State budget.
- a. The moneys presently distributed from foreign automobile insurance premium taxes for use of the local municipal funds would go into the general State treasury.
 - b. The funds necessary to meet the State share of the deficit would be appropriated by the State Legislature in accordance with the Governor's budget request.
8. If assets remain after all pension payments to the last remaining pensioner have been made, one-third of these assets would be returned to the State and two-thirds to the municipalities on the basis of their relative liability as

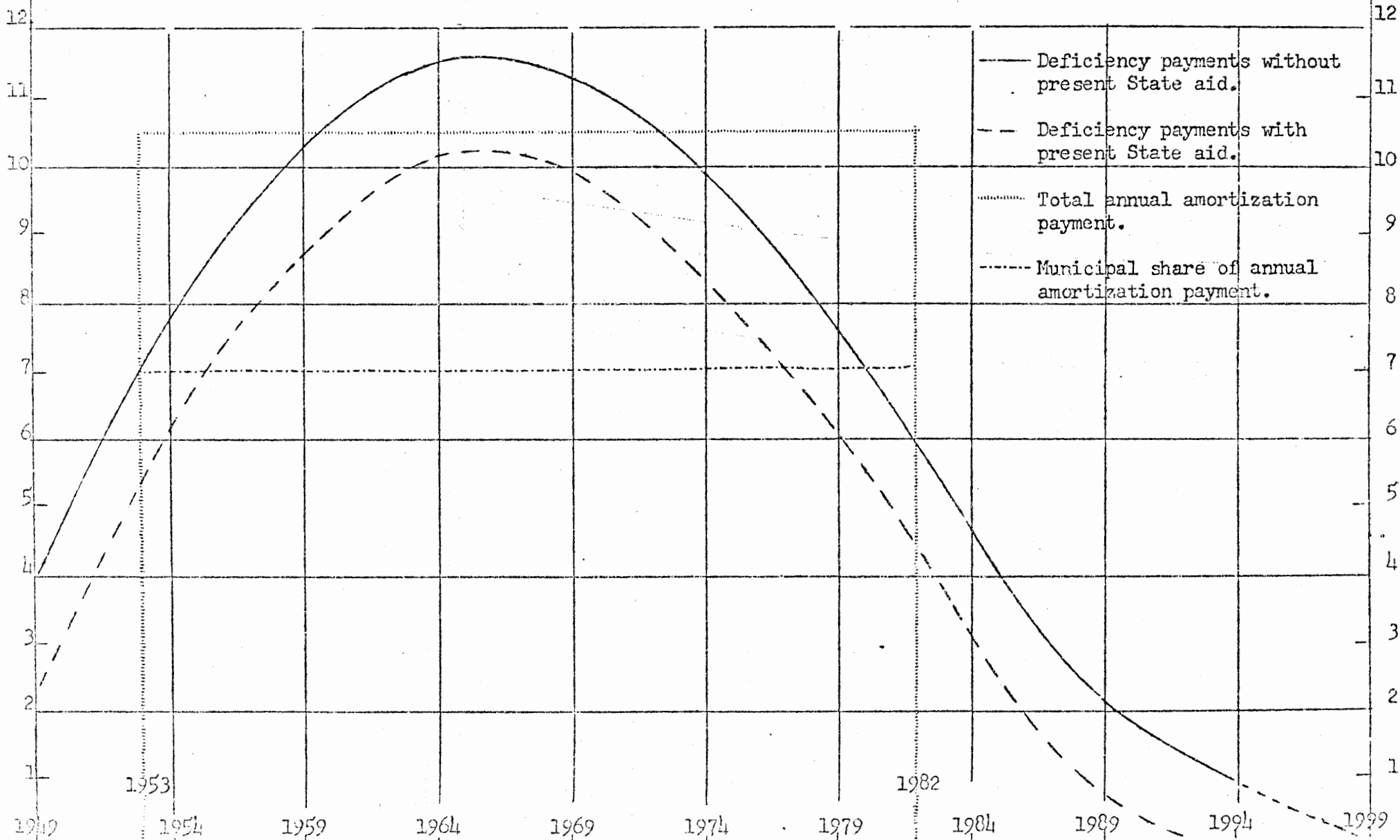
July 1, 1953.

9. The above recommendations should be enacted into law in 1952, with the first governmental contributions being made on July 1, 1953.

The legislation necessary to implement these recommendations is submitted as a supplement to this report. On the following page is presented a graphic description of the Commission's proposed amortization program as compared with the projected level of deficiency payments.

COMPARISON OF THE COMMISSION'S PROPOSED AMORTIZATION PROGRAM
WITH THE PROJECTED DEFICIENCY PAYMENTS UNDER PRESENT LAWS

Millions



CHAPTER IV

THE ADVANTAGES OF THIS PROPOSAL

A. The Value of Consolidating the Funds

1. There would be uniformity of administration of pension benefits.
2. There would be better investment of funds.
 - a. The Division of Investment consists of trained personnel. They have already produced a better return on the investments of existing State funds. As indicated, a minimum return of 3% would be guaranteed by the State.
 - b. The mere fact that the funds available for investing would be so much greater, would permit a better return to be achieved than is possible with small local funds, especially in the case of those local funds now operating on a deficiency basis.
3. The consolidation of all local funds and membership would permit the greatest possible actuarial planning.

B. The Value of High Fixed Annual Contributions by the State and Municipalities

1. An analysis of the report of the Department of Banking and Insurance indicates that the savings possible through steady accumulation of interest would be in the neighborhood of \$18,000,000.
2. The additional State contribution would further relieve the local tax burden by approximately \$60,000,000.
3. The steady amortization of the deficit would eliminate a sharp pension payment peak (now indicated as coming in 1964) which might have an adverse effect upon the payment of police and firemen's pensions.
4. All governmental contributions toward the deficit would cease after 1982 rather than extending to the end of the century.

5. The Consolidated Fund would be maintained on an actuarially sound basis.

a. The members, therefore, would be assured that adequate funds would always be available for existing and future pension requirements.

b. The taxpayers would be assured that no additional and unexpected tax burdens would be coming from this source.

CHAPTER V

THE FINANCIAL IMPLICATIONS OF THE COMMISSION'S RECOMMENDATIONS

A. The Cost to the Municipalities

Under Chapter 160, Laws of 1920, as amended, the full responsibility for meeting the deficits of the local funds rests with the municipalities. This has been reflected in the continuing increase in annual municipal deficiency contributions to the present level of approximately \$3,800,000. However, analysis of the actuarial report of the Department of Banking and Insurance indicates that this annual charge will continue to increase, reaching a peak of approximately \$10,000,000 (assuming the continuation of present State aid) by the year 1964. It is estimated that as of 1953 the figure will be approximately \$5,250,000. In recommending municipal contributions of approximately \$7,000,000 annually for thirty years, the Commission is proposing increased initial contributions during the first few years with annual savings thereafter, leading to a total savings of approximately \$78,000,000. While it is impossible to state in advance of actuarial valuation what the annual contribution of any one municipality will be, every municipality will be saved money over the life of its pension fund.

A slight charge would be paid by the municipalities to cover the administrative expenses of the Consolidated Fund. Based upon the experience of other state-wide systems, this fee would be extremely low in comparison with the savings to be obtained. In many cases this administrative fee would even be less than that presently being incurred by the local fund. By allocating the administrative costs to the municipalities on a per member basis, an equitable assessment would result in terms of services rendered.

The 1951 per member (active and on pension) administrative costs of the three actuarially sound state-wide systems were as follows:

System	No. of Members	1951 Administrative Cost Per Member
State Employees' Retirement System	27,471	\$4.72
Teachers' Pension and Annuity Fund	37,536	1.04
Police & Firemen's Retirement System of N.J.	5,322	3.53

The above figures are not presented for the purpose of comparing the "administrative efficiency" of the three systems. All three render different types of services to different groups of employers and employees, and these figures reflect these differences. On the basis of the type of service to be rendered by the proposed Consolidated Fund Commission, it is estimated that the administrative cost per member would be approximately \$4.00. For the 14,500 persons who would be brought into the Consolidated Fund, this would mean an annual administrative cost of \$58,000.

The relative inexpensiveness of this administrative cost can be emphasized thusly: For an annual administrative outlay of less than \$11,000 the City of Newark would be relieved of approximately \$12,000,000 in deficiency payments over a thirty-year period, or an average of \$400,000 per year. Outside of the savings to be achieved through the additional State Aid, it can be assumed that there would even be savings in administrative costs in the case of the 81 funds now having less than 10 members each. The initial administrative costs of the new system would be somewhat higher than the \$4.00 figure, however, because of the necessary extensive actuarial valuation.

B. The Cost to the State

In recommending additional moneys from the State to support the amortization program, this Commission is fully aware of the financial limitations within which our State Government must operate. However, it is the Commission's opinion, supported by statistics and trends, that the actual cost to the State of the complete proposal will be far less than it would appear at first glance. In fact, for the savings to be obtained, the actual additional cost would be very moderate.

It should first be noted that in assigning the cost of the program between the municipalities and the State on a 2/3-1/3 basis, the Commission is not merely pulling an easy formula out of the air. This ratio was chosen because in actual fact it coincides most closely with the pension payment situation anticipated for 1953 and with the ability of the various governments to contribute additional amounts to the proposed fund reserve. Raising the municipal contribution by \$1,750,000 over the projected 1953 deficiency contribution figure appears to be the maximum which could be expected from the municipalities. Similarly, the net additional expense to the State would fit within the small area of State revenues.

As compared with 1951 State allocations of \$1,723,000 to the local funds, the proposed program requires an additional \$1,750,000 annually, or \$52,500,000 over thirty years. However, from the point of view of the State treasury, there are a number of offsetting factors which would serve to reduce this gross figure considerably, as follows:

1. The rise in the foreign automobile insurance premium tax.

Prior to, and during, the war years the local funds received an average of approximately \$215,000 annually from this source. However, from 1946 on these receipts have increased \$100,000 per year to the present (1951) level of \$758,000. (See Appendix B) Among the factors contributing to this rise are: increased car ownership; higher incomes, hence an ability to carry insurance; and rising insurance rates.

The last two of these factors are likely to continue the present trend of rising revenues from this source.

Even more significant would be any change in the present automobile financial responsibility laws of the State, resulting in increased automobile insurance coverage. On the basis of accident reports filed with the State Division of Motor Vehicles, it is estimated that approximately 60% of the vehicles operating within New Jersey are insured. It can be anticipated that any new law modeled after either the "New York Plan" or "Massachusetts Plan" of liability insurance legislation would result in having 90% or greater coverage. In such a case, the fund revenues would increase by approximately 50%, or, on the basis of 1951 collections, at least \$375,000 annually, thus providing a considerable offset to the additional State aid.

The Commission is not recommending the dedication of these revenues for the use of the proposed Consolidated Fund. It strongly supports the Constitutional prohibition against dedicated funds. Moreover, it is unsound financial policy to support a pension system from a dedicated tax, the proceeds of which have no actuarial relationship to the cost of the pension benefits. The Commission is recommending that the revenues presently received from this source by the local funds go instead into the General State Treasury, and that the Legislature appropriate from the General State Treasury such moneys as are needed to support the State's share of the amortization program. However, in actual practice any rise in the revenues from the foreign automobile insurance premium tax would serve to offset the additional burden on the State.

2. The Use of the Full \$1,000,000 Present State Aid Grant. Since 1944, the State has been making an annual grant of \$1,000,000 for the benefit of the local funds. However, as described in Chapter I, the funds are allocated to all municipalities on the basis of the number of uniformed police and fire personnel. As a result not all of the \$1,000,000 has ever been received by the local funds. (See Appendix B: In 1951, State aid received amounted to \$964,495, with \$35,505 going to municipalities not having 1920 pension funds.

COMPARISON OF THE CHIEF PROVISIONS OF CHAPTER 160, LAWS OF 1920,
THE AMENDMENTS OF 1935 AND 1944, AND THE PRESENT PROVISIONS OF THE LAW

<u>Laws of 1920 (Chap. 160)</u>	<u>Amendment of 1935 (Chap. 171)</u>	<u>Amendment of 1944 (Chap. 253, 254)</u>	<u>Present Provisions</u>
1. ADMINISTRATION OF FUNDS			
Administration by a Local Pension Fund Commission	SAME	SAME	Administration by a Local Pension Fund Commission
2. MEMBERSHIP			
All employees of Police & Fire Departments	SAME	All employees of Police & Fire Departments. Distinction is made between "active" (uniformed) members and "employee" members who run no employment risks.	All employees of Police & Fire Departments. Distinction is made between "active" (uniformed) members and "employee" members who run no employment risks.
3. SERVICE RETIREMENT QUALIFICATIONS			
Members may retire at age 50, after 20 years' service. Compulsory retirement at age 65.	SAME	"Active" members may retire at age 53, after 25 years' service. "Employee" members may retire at age 60, after 25 years' service. Compulsory retirement at age 65 for "active", age 70 for "employee" members, both after 25 years' service.	"Active" members may retire at age 51, after 25 years' service. "Employee" members may retire at age 60, after 25 years' service. Compulsory retirement at age 65 for "active", age 70 for "employee" members, both after 25 years' service.
4. SERVICE RETIREMENT PENSION			
50% of final salary	SAME	50% of average salary for last five years served.	50% of average salary for last three years served.

Under the Commission's recommendations this latter amount would also serve as an offset to the additional State expenditure. While this sum is small in comparison with the large sums of money involved in the overall picture, over a period of 30 years it will mean an offset of over \$1,000,000.

3. The Ending of All State Aid After Thirty Years. If continued unchecked, the present system of meeting the pension fund obligations on a year-to-year basis will result in deficiency contributions being made up to the year 2000. On the basis of projected estimates, there will still be substantial payments made in the years after 1982. It can be assumed that State aid will continue to be given to municipalities throughout this period. Under the Commission's proposal, all State aid would be discontinued after the year 1982. On the basis of present State allocations this would mean a saving of \$1,758,000 annually to the State. Assuming a ten-year period of continued State aid, this would mean a total saving of over \$17,000,000.

The Advisory Commission has studied the above factors and has concluded that the additional net cost to the State of the recommended program would be well under \$1,000,000 annually for thirty years. As already noted, only with this additional State aid can the program be put into operation. Through this expenditure a saving estimated at approximately \$18,000,000 would accrue to the people of New Jersey.

Laws of 1920 (Chap. 160)	Amendment of 1935 (Chap. 171)	Amendment of 1944 (Chap. 253, 254)	Present Provisions
5. ORDINARY DISABILITY RETIREMENT PENSION			
No Provision	50% of final salary	33-1/3% of average salary for last five years served.	50% of average salary for last three years served.
6. RETIREMENT FOR DISABILITY IN LINE OF DUTY			
50% of final salary	SAME	50% of average salary for last five years served.	50% of average salary for last three years served.
7. DEATH AFTER SERVICE RETIREMENT			
Widow and children receive 50% of final salary, not to exceed \$1,000 annually.	SAME	Widow and children: 50% of last five years' average salary, not to exceed \$1,000.	Widow and children: 50% of last three years' average salary, not to exceed \$1,000.
No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.		No widow, but children under 16: 3 or more, same as widow, in equal shares; 2 \$240 each; 1, \$300.	No widow, but children under 18: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.
Sole dependent parent: Same as widow.		Dependent parents: 1 parent, \$500; 2 parents, \$375 each.	Dependent parents: 1 parent, \$500; 2 parents, \$375 each.
8. DEATH IN LINE OF DUTY			
Widow and children receive 50% of final salary, not to exceed \$1,000 annually.	SAME	Widow and children: 50% of last five years' average salary, not to exceed \$1,000.	Widow and children: \$1,500
No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.		No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$360 each; 1, \$480	No widow, but children under 18: 3 or more, same as widow, in equal shares; 2, \$480 each; 1, \$600.
Sole dependent parent: Same as widow.		Dependent parents: 1 parent, \$500; 2 parents, \$375 each.	Dependent parents: 1 parent, 2 parents, \$375 each.

Laws of 1920 (Chap. 160)Amendment of 1935
(Chap. 171)Amendment of 1944
(Chap. 253, 254)Present Provisions

9. ORDINARY DEATH

SAME

Widow and children receive 50% of final salary, not to exceed \$1,000 annually.

Widow and children: 33-1/3% of average salary for last five years served, not to exceed \$1,000

Widow and children: 50% of last three years' average salary, not to exceed \$1,000.

No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.

No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.

No widow, but children under 18: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.

Sole dependent parent: Same as widow.

Dependent parents: 1 parent, \$500; 2 parents, \$375 each.

Dependent parents: 1 parent, \$500; 2 parents, \$375 each.

10. DEATH AFTER ORDINARY DISABILITY RETIREMENT

No provision

Widow and children: 50% of final salary, not to exceed \$1,000.

Widow and children: 33-1/3% of average salary for last five years served, not to exceed \$1,000.

Widow and children: 50% of last three years' average salary, not to exceed \$1,000.

No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.

No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.

No widow, but children under 18: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.

Sole dependent parent: same as widow.

Dependent parents: 1 parent, \$500; 2 parents, \$375 each.

Dependent parents: 1 parent, \$500; 2 parents \$375 each.

Laws of 1920 (Chap. 160)

Amendment of 1935
(Chap. 171)

Amendment of 1944
(Chap. 253, 254)

Present Provisions

11. DEATH AFTER RETIREMENT FOR DISABILITY IN LINE OF DUTY

Widow and children receive 50% of final salary, not to exceed \$1,000 annually.

SAME

Widow and children: 50% of average salary for last five years served, not to exceed \$1,000.

Widow and children: 50% of last three years' average salary, not to exceed \$1,000

No widow, but children under 16: 3 or more, same as widow, in equal shares; 2, \$240 each; 1, \$300.

No widow, but children under 16: 3 or more, same as widow, in equal shares, 2, \$240 each; 1, \$300.

No widow, but children under 18: 3 or more, same as widow in equal shares; 2, \$240 each; 1, \$300.

Sole dependent parent: same as widow.

Dependent parents: 1 parent \$500; 2 parents, \$375 each.

Dependent parents: 1 parent, \$500; 2 parents, \$375 each.

12. FINANCING OF FUNDS

Member contributes 2% of salary. (If he enters service after age 35, contribution rate to be proportionately higher.)

Member contributes 4% of salary. (If he enters service after age 35, contribution rate to be proportionately higher.)

Member contributes 5% of salary. (If he enters service after age 35, contribution rate to be proportionately higher.)

Member contributes 5% of salary. (If he enters service after age 35, contribution rate to be proportionately higher.)

Pensioner contributes 2% of pension payment if death benefit coverage is desired.

Pensioner contributes 4% of pension payment if death benefit coverage is desired.

Pensioner contributes 5% of pension payment if death benefit coverage is desired.

Pensioner contributes 2-1/2% of pension payment if death benefit coverage is desired.

Municipality (or county) contributes amount equal to 4% of members' salaries; also makes up any deficiencies

SAME

Municipality (or county) contributes amount equal to 5% of members' salaries. May make up any deficiencies.

Municipality (or county) contributes amount equal to 5% of members' salaries; also makes up any deficiencies.

Laws of 1920 (Chap. 160)

Amendment of 1935
(Chap. 171)

Amendment of 1944
(Chap. 253, 254)

Present Provisions

12. FINANCING OF FUNDS (cont.)

All fines imposed upon members, donations, and 1/2 of rewards to be added to fund.

SAME

SAME

All fines imposed upon members, donations, and 1/2 of rewards to be added to fund.

Pro rata distribution of 1/2 of the 2% tax on the premiums of foreign automobile insurance companies collected by the State (P.L. 1927, c. 120)

SAME

SAME

Pro rata distribution of 1/2 of the 2% tax on the premiums of foreign automobile insurance companies collected by the State (P.L. 1927, c. 120)

Pro rata distribution of \$1,000,000 annual State Aid appropriation (P.L. 1944, c. 254)

Pro rata distribution of \$1,000,000 annual State Aid appropriation (P.L. 1944, c. 254)

7888

APPENDIX B

MONEYS RECEIVED FROM THE STATE BY THE MUNICIPAL
POLICE AND FIREMEN'S PENSION FUNDS, 1932-1951

<u>Year</u>	<u>Foreign Auto- mobile Insurance Premium Taxes</u>	<u>State Aid (Ch. 25L P.L. 1944)</u>	<u>Total</u>
1931			
1932	\$250,450	\$	\$ 250,450
1933	223,035		223,035
1934	192,330		192,330
1935	197,580		197,580
1936	204,748		204,748
1937	223,413		223,413
1938	233,696		233,696
1939	218,804		218,804
1940	213,271		213,271
1941	231,514		231,514
1942	260,487		260,487
1943	204,489		204,489
1944	177,507	971,978	1,149,485
1945	191,710	972,338	1,164,048
1946	228,560	970,772	1,199,332
1947	327,023	967,313	1,294,336
1948	459,946	967,210	1,427,156
1949	565,064	965,885	1,530,949
1950	653,574	964,825	1,618,399
1951	758,351	964,495	1,722,846

NOTE: No records are available as to the distribution of the foreign automobile insurance premium taxes prior to 1932.