Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON PUBLIC EMPLOYEE BENEFITS REFORM

"Presentations from Frederick J. Beaver, Director of the New Jersey Division of Pensions and Benefits; and H. Charles Wedel, Chief Financial Officer and Treasurer, New Jersey Transit Corporation"

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

DATE: August 31, 2006
10:00 a.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

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

ALSO PRESENT:

James F. Vari
Office of Legislative Services
Committee Aide

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

Olga Betz
Senate Republican
Jerry Traino
Frank Dominguez
Assembly Republican
Committee Aides

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

TABLE OF CONTENTS

rs: 1-54
ses: 55-101

ASSEMBLYWOMAN NELLIE POU (Co-Chair): Good morning, ladies and gentlemen.

We will begin our meeting at this time.

Roll call, please.

MR. VARI (Committee Aide): Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Here.

MR. VARI: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Here.

MR. VARI: Senator Gormley.

SENATOR GORMLEY: Here.

MR. VARI: Senator Rice.

SENATOR RICE: Here.

MR. VARI: Co-Chair Assemblywoman Pou.

ASSEMBLYWOMAN POU: Here.

MR. VARI: Co-Chair Senator Scutari.

SENATOR NICHOLAS P. SCUTARI (Co-Chair): Here.

ASSEMBLYWOMAN POU: Thank you very much.

Thank you, and good morning, ladies and gentlemen.

Today we will begin our information gathering and research into New Jersey's public employees' pension system with a discussion on different options for those systems.

Before we begin today's hearing, however, I wanted to take a moment to talk about the Office of Legislative Service's legal opinion issued last week. Simply put, the OLS opinion stated that we could not legally negatively affect a public employee's pension benefit if they have been contributing for five years or more. It also recognized that even employees with less than five years of service may have viable legal arguments under general principles of contract law that they -- that their present pension rights are protected.

On Friday, August 25, the Attorney General's Office issued a legal opinion that concurred with the OLS legal opinion. The AG's opinion also pointed out possible pitfalls in changing basic pension rights for current employees, based on Federal tax laws under which both the State and public employee could suffer serious tax consequences.

Based on these opinions, it is likely we will be unable to negatively affect the pension benefits of current public employees. Our focus for basic reform should focus -- should be focused on perspective changes for hires. There are still substantial gray areas surrounding issues such as pension padding, tacking, boosting, and threshold income levels for years of service calculation, which still remain open for discussion and consideration. And, regardless of legal opinions, we still have the ability to make significant changes to our pension system that will foster long-term cost savings through real reform.

As we have said from the outset, no issue and no idea should be considered off the table, including ideas that may provoke legal questions. Today we will be looking at different options for public pension systems, including both defined benefits plans and defined contribution plans. We also will focus on two-tier retirement plans for the State public employees workforce. Transitions to a two-tier benefits plan are currently being implemented in our state. New Jersey TRANSIT has recently and successfully made the move to a two-tier benefit system, which we will hear more about shortly.

The discussion and debate over a two-tier benefit system is likely to be spirited and, at times, I'm sure contentious. But it's also a discussion that needs to be had, and options that must be explored. As we have those discussions, we must be mindful of our obligations to the current workforce, and our ability to honor commitments to them, while dealing fairly with new hires by informing them, at the time of hire, of the pension systems that they are being offered and occupying when they accept employment.

We must be mindful of the legal framework in which we can work, in our ultimate goal of reducing the burden on New Jersey's property taxpayers. As Governor Corzine said in his July address to the Legislature, reality dictates we must consider two-tier systems in all benefits. We must remember this as we move forward with our discussion here today, and in the future.

Ladies and gentlemen, thank you for your time.

At this time, I'd like to ask my Co-Chairman, Senator Scutari, for any opening remarks.

SENATOR SCUTARI: Thank you, Madam Chair.

Good morning, members of the Committee and to the public. Welcome back to the Joint Committee on Public Employee Benefits Program--

Before we begin our discussion, I would just like to remind all members of the public, and members, if they would turn their cell phones on to silent so not to disturb the testimony.

I personally look forward to today's discussion, because I believe it will illuminate aspects of both defined contribution and defined benefit plans that are not readily apparent or understood. (cell phone rings)

ASSEMBLYMAN O'TOOLE: That was being turned off. (laughter)

SENATOR SCUTARI: Start on the right track.

There is a tendency, when talking about pension reform, to envision, basically, only two possible outcomes. Either we embrace the existing system or we throw it out all together, in favor of something like a 401(k). I believe this is a false choice. Both approaches have their strengths and their weaknesses. And it's important that we assess them in cost-benefit terms.

We must also examine the various hybrid plans that have been adopted by public and private employers. These plans retain the defined benefit element of our current system, while including a defined contribution component. They can serve to reduce the employer's overall liability, while, at the same time, providing guaranteed retirement income to employees.

The retirement system is intended to realize certain goals. Primarily, it is meant to help us attract and retain talented individuals in public service. It is meant to provide a significant source of retirement income to public servants.

As we endeavor to reform the system, we must not lose sight of these very important goals. And we must choose to act in ways that allow us to forward those same goals I'm speaking of. So I look forward to the discussion and the questions from the Committee members.

Thank you, Madam Chair.

ASSEMBLYWOMAN POU: Thank you, Senator.

At this time, I'm going to ask if Mr. Beaver-- If you could please come forward.

Along with him-- What I'd like to do is ask all of our presenters here today to come forward at the same time. You can all please take a seat.

Unless, Mr. Beaver, you are going to be accompanied by any additional members of your staff. Is that-- Did you plan--

F R E D E R I C K J. B E A V E R: I did have two members of staff I'd like to have join me today.

ASSEMBLYWOMAN POU: Okay.

In that case, then, if you could please come forward with your staff. And then we'll -- I'll ask the other presenters to just wait for a moment until your presentation is completed.

MR. BEAVER: Thank you.

ASSEMBLYWOMAN POU: Thank you.

MR. BEAVER: Good morning.

ASSEMBLYWOMAN POU: Good morning.

MR. BEAVER: With me today are Florence Sheppard, who is the Deputy Director for Benefits Operations for the Division of Pensions; and John Megariotis is Deputy Director for Finance, again Division of Pensions.

I just asked them to join me today. I probably should have had them with me the last couple of times. I realize the error of my ways.

The last opportunity we had to speak to the Committee, we talked a great deal about defined benefit plans and the structure of the current State system. And some of that also occurred during our first session with the Committee.

What we'd like to do today is shift gears a bit and talk about a defined contribution plan that's sponsored by the State, primarily for the use of the higher education community. And with that said, I'll just move forward with the slide presentation that we have.

New Jersey Alternate Benefit Program-- Again, an overview for this Committee-- The program -- the history: It was established in 1965. It provides retirement, long-term disability and life insurance benefits to the eligible population. And this is primarily the State colleges and universities, county colleges, the Higher Education Student Assistance Authority, and the State Department of Education.

Again, this is-- And I apologize for some of the eye chart E's up there. I didn't realize they were out there. But, basically, a retirement benefit funded by employee and employer mandatory contributions, much like the defined benefit systems. The employee contributions, like the PERS plan and Teachers' plan, are at 5 percent; with employer contributions at 8 percent of salary. The employer contribution, in all cases, is funded by the State, except for all participants -- for all participants except the non-faculty positions at the county colleges.

Again, some more history: The administrative expenses for the program are paid for by the State. The contributions are invested in annuity contracts. And these are employee-directed investments, through third-party insurers; primarily TIAA-CREF, which is the big program. They were the exclusive providers until 1995, at which time there was an opportunity to diversify. There are now five other providers since '95.

The current third-party annuity providers-- This contract went out for bid several years ago. As you can see, there's a number of different providers available to the community that's eligible for participation. Clearly, the largest of the providers continues to be TIAA-CREF.

The current statistics: The active members, as of June 30, '05 -- which was our last annual report for this group -- we had 16,900 active participants. The assets involved are over -- just around $6 billion. And the annual administrative expense is fairly small. It's about $282,000. That's for Fiscal '06.

More statistics: The annual employer contributions -- again, this is State contributions -- for the program for Fiscal '07 will be $151 million. And that breaks down, for State employees, to about $1.3 million, a million of which is pension. Insurance is another $264,000. For the higher education employees, it's $131 million. Again, the breakdown is: the pension, 113, insurance, about $17 million; and the county colleges at $18 million, with the breakdown of about 15 and 3 for pension and group life insurance -- group life and disability insurance -- I apologize.

This gives you some sense of the cost over time. As you can see, again, it's a ramped up cost. But what's different about this cost is, it's strictly tied to salary. So the employer cost is pretty predictable. It's 8 percent of whatever the base payroll is. And, over time, if you know your payroll is going to grow by 3 percent, you can have a pretty good idea -- unlike the DB plan, where you've got the huge shifts in obligations due to asset swings -- you know what your costs are going to be over time with the DC plan.

I'm going to skip this slide. We just liked the colors here. I apologize. It was not supposed to be in here. We can't seem to get any numbers on it. (laughter)

The Alternate Benefit Program: The eligibility-- Again, this is talking, now, to the individuals. So if you're employed by any of the State or county universities or colleges, and you're full-time faculty, full-time officers, visiting professors, full-time professional staff -- who are required to possess a minimum of a bachelor's degree, or equivalent -- you are eligible to participate.

The definition of *full-time*: This is, kind of, a strange one. Anyone receiving 50 percent or more of base salary. And it may include anyone on sabbatical or paid leave of absence.

Not eligible for enrollment: So the part-time or adjunct faculty at any of the schools would be entitled to participation in PERS, provided they meet the salary thresholds, but not eligible for ABP. Temporary employees-- Again, there are some exceptions here, but they're few. I mean, you've got some visiting professor exceptions, appointed for a full school year; not eligible to faculty members who are in the U.S. under an F or J visa -- so these would be foreign aliens; employees in a career service title, as defined by the New Jersey Department of Personnel; employees in clerical and other non-professional positions; and any employees receiving a benefit from any New Jersey State retirement system, including ABP. So if you retire from another State system or you retire from ABP, when you go back and take a job, you are no longer eligible to participate. You cannot be reenrolled.

Contributions: So, from the 5 percent of base or contractual salary -- on the employees side is a deduction that's made under 414(h) of the Internal Revenue Code; the 8 percent employer matching contribution is under Section 401(a) of the Code; and any additional voluntary contributions on the part of the individual would be made under the 403(b) section of the Internal Revenue Code.

The vesting: So, unlike the defined benefit plans where you've got a 10-year vesting -- and looking back to the five years -- you're immediately vested if a new member; or if you have an existing retirement account containing contributions from employment in higher education, or if you're an active or vested member of a Federal or State retirement system. So if you come into this program, you can get immediate vesting. Vested members of ABP are eligible to apply for loans, which are made from the members' account balances, much like they are in the PERS, Teachers', and police and fire systems.

There is some delayed vesting. If the new member is not vested, the mandatory contributions are held in a delayed vesting status during the initial year of membership. If an employee is not eligible to continue in ABP for the second year of employment because they don't meet the eligibility criteria, that member may apply for a refund of employer mandatory -- employee mandatory contributions, and the employer contributions revert back to the employer. During delayed vesting, loans and transfer of funds between carriers are not permitted. So you cannot take a loan like you would if you were a normal member, borrowing against your own account.

There's a long-term disability feature in this program. And I did talk to that a little bit last week, as a possible option under the PERS or Teachers' systems. This is an employer-paid, long-term benefit -- disability benefit. You are eligible for the benefit after six months of total disability and after one year of participation in the ABP. So provided you've got your year in, if you go out on a permanent disability, or if it's defined as a permanent disability -- you've been out of work for six months -- you would qualify for the benefit. Occupational or non-occupational condition -- you get a benefit of up to 60 percent of base salary. So they don't look to how the accident occurred -- whether it was on the job or off the job -- like the other systems do. It's just a flat 60 percent of base salary as the benefit. And that is offset by any other periodic benefit.

While you're out, mandatory contributions to your retirement account will continue. So you can continue to defer money into your retirement account, under the ABP program, even while on disability. The benefits are paid as long as the member remains disabled, which means if they qualify to return to work, the benefits would be discontinued. They will continue to age 70. And there are some provisions under the Age Discrimination Act that allow you to stop the benefit at age 70, or if you begin receiving payments under a retirement annuity through the ABP.

The definition of a *disability* in ABP looks, at times, a little different than the other defined benefit systems -- but, basically, if you are unable to perform one or more essential duties, you're unable to engage in any gainful occupation for which you are reasonably suited by reason of education, training, or experience. Disability is not considered to exist if the member is gainfully employed, or if the disability resulted from an act of war or intentionally self-inflicted, the usual insurance company restraints. But what's different with this system is, if you go back to work in another position, you're no longer eligible for disability benefits. PERS and Teachers' both allow you to go out, if you're disabled, and get other employment. There's some offsets involved, but this is a very different arrangement.

On the group life insurance side, it's basically an employer-paid life insurance. It's 3.5 times annual base salary for active. If you remember, last week we talked about, for the PERS system, the life insurance benefit is 1.5 times for base; for teachers' it's 2 -- 1.5 times. For police and fire it goes up to 3.5. It's a one-half times annual base salary at retirement. It requires a minimum of 10 years service. The minimum retirement age is 60. And you begin receiving payments under retirement annuity within 12 months of being in active employment status. Conversion upon termination of employment is permitted. So the individual, at termination, has the opportunity to go to the insurance carrier and buy the coverage independently.

Loans are permitted to vested members. The loans are based on their current account balances. The loan provisions, really, are with the carriers. So, unlike the State system -- the PERS system, or Teachers', or police and fire, where the loans are run through the pension account -- this is directly with the different carriers: TIAA-CREF, for example, or AX. Whoever the carrier is, you would arrange loans directly with them. And they vary in the amount, the frequency, and the interest rate that you're going to be paying. In the PERS system, if you recall, all loans are 4 percent.

Distributions are paid directly by the investment carrier. And they offer a variety of annuity options. You've got a choice of taking a lump sum, you've got stream of payment options at different levels. It really has a lot of different alternatives available to you, as an individual, and you can take the option based on what your financial needs are. Unlike our system -- it's basically as -- one option at a stream of payments, with some beneficiary provisions.

With that, I'll end the discussion on the ABP. It's not a very complicated plan. It's basically an opportunity for you to put money from your pay -- employer match at 8 percent -- into an investment account. It's a self-directed investment. The individual has an opportunity to decide where they want their money invested, how they want it invested, and then how they want it paid out in the future, after retirement.

And with that, I would take any questions the Committee might have.

ASSEMBLYWOMAN POU: Thank you, Mr. Beaver.

Just a real quick question. On Page 5 of your presentation, I think you talked about -- that the administrative expense for the ABP, it seems, was $282,000 -- it indicated on your report.

Now, if you take a look at that, and you-- Let me go to that page -- $282,000 -- I'm sorry. If you -- if I divide that against the 16,900 members, that will give me an average of, what, maybe $17 per member for the administrative expense, assuming the math is correct. That seems like a very low administrative expense. Could you tell me, is that, in fact, the case? How is that possible?

MR. BEAVER: That is the case. And that is basically the expense incurred by the Division of Pensions. So that's for our staff. Understand that most of the management of these programs is done by the insurance carriers and the providers of the funds. The expenses embedded in those funds are actually drawn down against the individual accounts. So there are other administrative fees out there that are embedded in the-- TIAA-CREF, for example, has an administrative fee buried in your account.

I would ask Mr. Megariotis -- who might be able to describe that a little better. We went through that in a recent bid process, and he has a lot more experience with that.

ASSEMBLYWOMAN POU: That would be great.

Along the same lines, Mr. Megariotis, could you also let me know, are those administrative expenses the same for the traditional benefit -- the traditional plan benefits, as well, in the administration of that -- those plans?

JOHN D. MEGARIOTIS: When you say *traditional plan*, I'm not sure what--

ASSEMBLYWOMAN POU: The traditional pension plans.

MR. MEGARIOTIS: Oh, no. This does not include the defined benefit plan at all. This is strictly the administrative expense of the pension staff in support of the Alternate Benefit Program. There are fees like you would pay when you invest in a mutual fund. There are net asset fees that come out, that the providers -- each one of the six providers would deduct right from the members account, as an administrative fee. But they're, across the board, different, depending on the provider and the investment option.

ASSEMBLYWOMAN POU: I understand. I'm sorry. Let me make my question clear. For the ABP plan-- The figure that I've just mentioned -- you indicated that the administrative expense for that would be on an average of $17 per member, in terms of the administrative expense.

I guess the other question is, how much administrative expense would it be to administer the traditional pension plan, separate and apart, based on what you've just indicated?

MR. MEGARIOTIS: I don't have that number with me on a per-person basis. We roughly have an operating -- a total Division operating budget of $33 million. But that is spread across all the benefit programs: the pension systems, the health systems. I mean, we could certainly come back to you and get a per-member fee.

ASSEMBLYWOMAN POU: That would be fine -- either per-member or in the aggregate. That would be okay.

Thank you.

Co-Chair Senator Scutari.

SENATOR SCUTARI: Thank you, Madam Chair.

How difficult would it be to transition current employees -- let's assume people with less than a five-year period of time in the PERS system -- into a plan such as the one that you just described?

MR. BEAVER: I think that-- You're talking now about the non-vested and the individuals less than five years. That would become more of a political issue, I guess, than anything else, from a pragmatic--

SENATOR SCUTARI: Well, forget the politics for a minute. Let's talk about the practical aspects of how you would actually do it.

MR. BEAVER: From a pragmatic standpoint, it's real easy to do. You value your accounts, and you transfer some moneys in, and you just start running it as a 5 percent contribution; instead of going to PERS or Teachers', going to the ABP account, with some match on the employers part.

SENATOR SCUTARI: Would there be any tax consequences with that transfer, or none, because they haven't realized any of that money yet?

MR. BEAVER: It's going from one qualified retirement account to another. I can't envision where you'd have any tax consequences.

SENATOR SCUTARI: And I'm assuming, because of the myriad of plans that you need to administer -- if this was something that was done across the board, that would streamline your administrative duties, as well, down the line, after the other plans may be exhausted.

MR. BEAVER: At some future date, long into the future, yes.

SENATOR SCUTARI: Do you envision any other difficulties that the State Legislature or the Governor would have in implementing a plan like this for current employees with less than five years of service or new employees? Any other difficulties we might have with the administration of changing those plans over, if we decided to go that route?

MR. BEAVER: Let me just check with staff for a minute.

Not really.

SENATOR SCUTARI: What about an estimate on the savings? Well, obviously, you've already described the fact that it would be something that the State could anticipate, in terms of what their cost would be, where as a defined benefit plan -- the estimate of what it costs the State is difficult to ascertain, because we don't know what that benefit is going to be with all the additional provisions. But would this save the State money if we implemented this kind of plan?

MR. BEAVER: I think-- And I'm going to ask you to hold off just a bit until Mr. Reimert comes on -- one of the plan actuaries. But I think, basically, it's not so much that it's a long-term savings. It's more of a predictability issue. You don't have to rely on the swings in the market to drive your unfunded liabilities on occasion. But the bottom line is, the State has got to put its contribution in.

I think the difference between the defined benefit plans that we manage, and this plan, is that there's never been a skipped payment. There's been 8 percent of payroll every year, year in and year out. So there's been no opportunity to not put money into this program. If we had taken the same approach with the PERS situation, and the Teachers', it might look a little different.

SENATOR SCUTARI: So what you're suggesting is that if this type of plan was implemented, it may, in fact, cost the State more money because of the fact that, by statute, we have to make that contribution payment, whereas some of these payments have been skipped for the past -- under the current plan?

MR. BEAVER: Well, you couldn't skip it. It's a little more-- It's not--

SENATOR SCUTARI: I'm not saying we could skip it. I'm saying we have skipped pension payment plans in the past.

MR. BEAVER: Right. And the problem here is, with skipping a payment in the ABP plan -- is that part of the future retirement benefit for the individual relies on those steady streams of contributions and the compounded interest that occurs when you put the moneys in every year.

SENATOR SCUTARI: So one of the benefits would be predictability, in terms of the cost of the State, even though we would have to make that payment every year, which we probably should be doing anyway on the other plan. But that would have to be done, because that's an integral part of the benefit that's provided.

MR. BEAVER: Yes.

SENATOR SCUTARI: And that would be an amount of money that we would be able to predict from year to year, with some specificity.

MR. BEAVER: Yes.

SENATOR SCUTARI: And I think if you're trying to determine a budget on a year-to-year basis, that might be something good, I guess.

MR. BEAVER: And there's also-- If you look at the design of this program, there's less inclination to make other changes, or other statutory changes, which change the level of benefits of one group versus another. It tends to become a very standardized formula. So there's-- In this kind of program, you don't have things -- you don't have the age restrictions, you don't have-- A lot of this stuff is just formulaic. And you're not going to be pressed to do a bill for this group or that group to take care of some condition.

SENATOR SCUTARI: For career employees, this would not be much different, are you suggesting, in terms of their overall payment at the end of their careers?

MR. BEAVER: We'd like to model that, to be honest with you. And we were just talking about doing that yesterday -- taking a case where we brought a new employee in, at a certain age, and running the scenarios under two situations: one at the end of a career -- say a 25- or 30-year career -- with the same earnings -- payroll growth expectation over time. What would the present value of that benefit be some 30 years in the future? So we'd like to-- I'd like to just present that model back to the Committee, if I may.

SENATOR SCUTARI: And this pension plan that you've described will be funded year to year, so we wouldn't have any concern about the fact that it would go bankrupt, because every year the contribution would be made by the employee and the employer.

MR. BEAVER: Yes.

SENATOR SCUTARI: And we wouldn't have all this nonsense, in terms of the ability to change, drastically, a benefit that someone would get by changing job titles--

MR. BEAVER: Yes.

SENATOR SCUTARI: --or by getting an additional salary at the end of their career, or boosting it up, or putting it together.

MR. BEAVER: That would basically end that opportunity entirely.

SENATOR SCUTARI: What about the pension loan program that's also available under this program, whereas, you've told us in earlier testimony, that costs the State a certain amount of money? Does that loan program in this system cost that ABP system a significant amount of money?

MR. BEAVER: Again, it's driven by the providers. The insurance companies derive and determine what the interest charge would be. It's not set at a flat level. So each provider--

I'd ask Mr. Megariotis, again, to comment on that one.

MR. MEGARIOTIS: The loan provisions in a defined contribution plan are different, because you're borrowing money directly -- basically from your own account. So it's not opportunity lost for the whole system. So they're not the same impact. It's more of a-- There's less of an impact. There's no implication on the whole system, because they're individual accounts, and that's all your retirement is based on -- the value of that account.

SENATOR SCUTARI: I know you talked about this earlier, but who-- This is mostly college--

MR. BEAVER: It's all higher education, yes -- the colleges and community colleges.

And it's really-- I guess the basis for that is, it's a more portable benefit. And these are people who tend to move from a college to a community college, or vice versa -- move between colleges.

SENATOR SCUTARI: Have you had an opportunity to compare this plan with the one that's offered by New Jersey TRANSIT?

MR. BEAVER: No, I have not. And I'm looking forward to Mr. Wedel's presentation later this morning.

SENATOR SCUTARI: I'm looking forward to your take on that, when you consider both of those plans and line them up together.

Thank you, Madam Chair.

ASSEMBLYWOMAN POU: Thank you, Senator.

Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Thanks, Chair.

First, for starters, through the Chair, I just think we have to get past the stage of talking about skipping pension payments over the last nine years. It's kind of brought us to the position that we are in right now. I think we really have to make sure -- continuing what the Governor did this year -- to make a significant contribution to shore up what I think is a failing and faltering pension system.

Having said that, I agree with the Chair -- Nellie Pou's assessment. From my standpoint, the $282,000 in administrative costs to administer a $6 billion asset with 17,000 members-- Is that -- to me -- is that fiscally prudent? It seems to me it's done in a more efficient manner than some of the other pension plans we have seen over the years.

MR. BEAVER: Well, a lot of the payment mechanisms -- all of the administrative activity really occur at the insurance company. If you take-- And, again, I'd like to come back and develop our per-capita cost. We're at about $33 million. But recognizing, this is for 16,000 participants. We're looking at a couple hundred thousand on our side, and multiple systems.

So, clearly, if you're running one system -- and, again, recognizing that there are certain costs at the insurance company level that we don't see.

ASSEMBLYMAN O'TOOLE: Right.

MR. BEAVER: So it's $282,000 just for us.

ASSEMBLYMAN O'TOOLE: On our side.

MR. BEAVER: And whatever they charge.

ASSEMBLYMAN O'TOOLE: Do we have that number of the other side of the ledger, the insurance costs? Are they born by us, ultimately, in some other manner?

MR. BEAVER: We can get those numbers, because we just rebid the contracts a couple of years ago. So we have the numbers in the bid.

ASSEMBLYMAN O'TOOLE: Again, Director, through the Chair, are those costs -- at some point -- that the insurance companies or entities-- Are they born by either the employees or employer in some other vehicle?

MR. BEAVER: They're born by the participants.

ASSEMBLYMAN O'TOOLE: Okay.

Question about the graph of the State benefit program spending: In 2002, you were at about a billion dollars. And it starts moving up to, roughly, $2.4 billion midway or towards the tail end of 2005. And then there's a huge spike projected at 2010, to $6.3 billion. I'm trying to understand how we go from a billion in 2002 -- and maybe just the natural growth of either retiree benefits, or an influx of active members. But it seems you go from a billion in '02, to 2.4 in '05, to 6 in 2010. It seems to me there's a rapid growth in a very short period of time. And I'm sure there's a logical explanation for that.

MR. BEAVER: Well, I think part of the problem is, if you look at the lowest line on the chart, it's the pension contributions. And it starts returning in 2005-2006. So that has a huge impact on the out years, going out to 2010. But you've also seen a very significant growth -- rate of growth for the health benefits for both active and retired participants.

ASSEMBLYMAN O'TOOLE: When you say rate of growth, can you just explain what that term is?

MR. BEAVER: Just the percentage increase. I mean, you've got two impacts. One is, you've got an impact because of the change in population size, both on the active and retired sides. And I think I talked to that in an earlier meeting -- that we're experiencing about a 10 percent rate of growth each year, in terms of covered population. But, at the same time, we've got the change in your trend rates, in the utilization rates of your population, and just medical inflation costs continue to rise. So it's going to be a-- Costs are going to continue to grow over time. And it's not unique to the State of New Jersey. The public -- private sector has it, as well.

ASSEMBLYMAN O'TOOLE: The medical costs-- You put a 10 percent on the covered population cohort that's been in flux or moving up, with regard to the medical cost. Do you have a number? Is it 10 percent, is it 5 percent per year as to what that cost goes up each and every year?

MR. BEAVER: Our actuaries are projecting, in the future years, a 10 percent rate of growth.

ASSEMBLYMAN O'TOOLE: And how about for the last five, from, say, 2001 to present day? Do we have that? Does that remain constant?

MR. BEAVER: I'd have to get that number for you, sir.

ASSEMBLYMAN O'TOOLE: But you're saying, present day projecting five years out, your roughly looking at $10,000 for medical costs.

MR. BEAVER: Well, 10 percent a year growth.

ASSEMBLYMAN O'TOOLE: Growth, increase.

MR. BEAVER: Right.

ASSEMBLYMAN O'TOOLE: Assuming everything else stays flat.

MR. BEAVER: Right.

ASSEMBLYMAN O'TOOLE: Okay.

Moving ahead: Just by way of definition, those who are covered by the program-- Your definition -- or the definition provided -- says that the full-time professional administrative staff are required to possess a minimum of a college bachelor's degree, or its equivalent. What is the equivalent? Is it any degree? And for those that don't possess that degree, do they have a different pension system?

MR. BEAVER: Well, the alternate system available to anybody who's not covered under ABP would be PERS.

ASSEMBLYMAN O'TOOLE: Okay. That was my question.

MR. BEAVER: Availability.

And I think in some of the jobs, you've got some civil service definitions about alternatives to a degree. You've got some experience criteria to meet. You'd have an opportunity to qualify.

ASSEMBLYMAN O'TOOLE: My question is: If you're looking at, roughly, 17,000 folks within this benefits program under the universities, State and county colleges, how many of those individuals that work at those facilities -- that actually qualify in the civil service or PERS entity?

MR. BEAVER: I would have to get that number for you.

ASSEMBLYMAN O'TOOLE: I would like that. If you could just provide that to the Chair, I'd appreciate it.

Moving ahead-- I think it's my last question.

Director, the definition of full-time is anyone receiving 50 percent or more of base salary. Fifty percent or more of what base salary? Can you just explain that.

MR. BEAVER: I'm going to ask Mr. Megariotis to explain that one, if I can.

ASSEMBLYMAN O'TOOLE: Sure.

MR. MEGARIOTIS: It's just the base salary that's exclusive from overtime. It's just the contractual base. It's kind of hard to define, other than it doesn't have the extra ad-ons like maintenance costs, or overtime, or any other add-ons. It's just strictly a contractual base salary.

ASSEMBLYMAN O'TOOLE: And I wasn't-- I didn't quite understand the-- Can an individual work at the colleges full-time, with the criteria set out, and then qualify for a separate pension at the same time -- dual track their pensions? Is that possible? Or could you have a scenario where they work 25 years under this scenario, get their pension, and move on to collect -- or participate in another pension system?

MR. BEAVER: It's a complicated answer. There are opportunities--

ASSEMBLYMAN O'TOOLE: We've got plenty of time. (laughter)

MR. BEAVER: There are opportunities to participate in multiple systems.

ASSEMBLYMAN O'TOOLE: But can I get the benefit from multiple systems?

MR. BEAVER: Yes. Recognize, that the ABP account accrues as a dollar-value benefit associated with that employment. It doesn't trickle over to any other account. You've had situations where you've had police officers, for example -- or higher-level police officers were teaching, basically, on a full-time basis -- on a night basis -- at a local college. That's occurred. So you've had an account over in PFRS, and you've also, simultaneously, established an ABP account.

ASSEMBLYMAN O'TOOLE: All right. If you can-- I don't mean to put you on the spot. But if there's some lengthy briefing on--

MR. BEAVER: We can give you a-- It's probably easier to give you a write-up on it.

ASSEMBLYMAN O'TOOLE: That would be terrific. I'll wait for that.

Chair, thank you very much. That's all the questions I have right now.

ASSEMBLYWOMAN POU: Thank you.

Thank you, Assemblyman.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Mr. Beaver, you said that you were going to prepare -- or the actuary was going to prepare a sample of a person who came into the workforce, both under PERS and the Alternative Benefits Program -- what they'd achieve after 25 years.

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: I think that would be interesting to kind of look at that, and assume the same salary, same conditions, everything else.

MR. BEAVER: Right.

ASSEMBLYMAN GIBLIN: You mentioned the figure of 169,000 folks in the ABP. I think that was the number you mentioned.

MR. BEAVER: It's 16,000.

ASSEMBLYMAN GIBLIN: Sixteen thousand, was it?

MR. MEGARIOTIS: Sixteen-nine.

MR. BEAVER: Sixteen-nine.

ASSEMBLYMAN GIBLIN: Oh, 16,900. Okay. So the average balance then would be into that six -- what was the number you gave us?

MR. BEAVER: Well, the-- You've got 16,900 active members, with $8 billion in active -- assets -- or $6 billion. I'm sorry, $6 billion. But that also includes moneys held by retirees, as well, I believe. So you'd have to-- We'd have to get the total population, both active and retired participation, and come up with an average balance per account.

ASSEMBLYMAN GIBLIN: Yes, that's what I'm interested in, what the average balance would be per active participant with that.

It was mentioned before about the -- a lot of this work being parceled out to insurance carriers. Is the rate they're charging on loans -- I assume that's market rate?

MR. BEAVER: It's more competitive than the 4 percent. Yes, it's more of a commercial rate than would be expected to be found in the PERS plan, for example.

ASSEMBLYMAN GIBLIN: Could you find the information on that, too?

MR. BEAVER: We can get you the individual rates per carrier.

ASSEMBLYMAN GIBLIN: And with this program-- You had mentioned it before. But there really has been no holidays. A participant receives, what, an annual statement about the contributions, both on their side and the university's side, hypothetically? How do they keep track of their information?

MR. BEAVER: They get quarterly statements that show the moneys going in, both on their -- from their pay, and also the employer contribution. It also shows the earning growth. So at any-- Four times a year they're getting a statement of what the value of their accounts are.

ASSEMBLYMAN GIBLIN: Well, would you be able to show, over the last 10 years, what dollars were allocated from the State via colleges, universities, as their share, versus what the State of New Jersey contributes to PERS during the same period, on a per capita basis?

MR. BEAVER: The contributions? Sure.

ASSEMBLYMAN GIBLIN: Okay. Thank you.

ASSEMBLYWOMAN POU: Thank you, Assemblyman.

My understanding is Co-Chair Scutari has a follow-up question.

SENATOR SCUTARI: Just one follow-up question. And this is probably simple for you to answer. At the end of people's careers, when they have a pot of money in this account that they've contributed to, and the employers matched at 8 percent, how is that money paid out? Can they take it all at once? Is there some type of statutory provisions in the way that that money be paid out?

MR. BEAVER: Well, there's a variety of options. I mean, it's really up to the individual and what their financial needs are, and depending on what the different carriers provide to them. But, hypothetically, you can take the full value out. Again, you're subject to the immediate Federal income tax on that lump sum distribution.

SENATOR SCUTARI: But it's their money. At the end, they can do pretty much what they want.

MR. BEAVER: It's their money, right.

SENATOR SCUTARI: Thank you.

ASSEMBLYWOMAN POU: Thank you, Senator.

Are there any other questions?

Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Just one follow-up, Chair. Thanks.

Unrelated -- related -- I wanted to have this opportunity. I was contacted by a member who represents a town in Essex County. And I'm hoping you can give a clear answer on this question. They have a situation where an individual worked for 30 years as a fireman, retired -- forced retirement at 65. And then that individual applied for unemployment, saying he was "forced out of his job." Is that within your purview to oversee and review those types of scenarios? And would you normally -- would the State normally pay unemployment benefits for an individual who is retired, because he was age-limited out at 65?

MR. BEAVER: Unfortunately, I don't get involved with unemployment compensation.

ASSEMBLYMAN O'TOOLE: But would that be something that comes under you, because you oversee the pension benefits?

MR. BEAVER: Well, on the pension side, he can challenge the-- I mean, you can't really challenge the mandatory retirement age. That's set in statute.

ASSEMBLYMAN O'TOOLE: Understood.

MR. BEAVER: But on the unemployment side, that would be a separate agency.

ASSEMBLYMAN O'TOOLE: Okay.

MR. BEAVER: We would deal with the pension issue.

ASSEMBLYMAN O'TOOLE: Okay. Thanks.

Thanks, Chair.

ASSEMBLYWOMAN POU: Senator Gormley.

SENATOR GORMLEY: Thank you.

A follow-up from the last meeting-- When will the list be available -- the 15 items I asked for?

MR. BEAVER: We are working on cleaning up the data.

SENATOR GORMLEY: I understand that. You were very direct about that.

MR. BEAVER: Hopefully, I'll have it in the next day. I have some data I'd like to be clear that the numbers are right.

SENATOR GORMLEY: You indicated you wanted to have it just right. And I appreciate that. And now that you've got the system down -- which add another 150 for the following week, so we're going to have 200 the next 10 days.

Now, going on to today's topic.

This is an interesting conversation, except we don't know how much money we're going to have in the future. I guess my question is, shouldn't we have numbers from the Governor? Because we're talking to future employees. And I think everybody's been perfectly on the point today. Are we going to contribute 8 percent? Well, what is 8 percent going to mean? How much is that a year, going forward? And are we going to have it? Because, if not, then we have to make it 7 percent, or 6 percent. What you don't want to do is get into a situation where you promise another generation of pensioners that we have a system that's going to be stable, and we don't get there.

And don't we have to have out-year projections, as best they can be, from the-- I know how hard that is. But don't we have to know the cumulative number of-- We can say percentages, and we can toss all the terms around. How much money are we going to have? Without that, it's going to be very hard for us to credibly look at the employees and say, "We've got this whole new system, and it's going to work."

Do we have any idea? Have we been talking to the Treasurer? Obviously, you work for the Treasurer or with the Treasurer. Do we have any ideas about how much money is going to be there? Do we have out-year projections of what they think will be available for pensions or for a new pension plan?

MR. BEAVER: Let me address the issue in a couple different ways.

SENATOR GORMLEY: Okay.

MR. BEAVER: Number one, Mr. Reimert -- again, one of Milliman's actuaries, and one of our key guys for the Teachers' system--

SENATOR GORMLEY: Sure.

MR. BEAVER: --is going to give you some data around the impact of shifting from one system to another, if that was the case--

SENATOR GORMLEY: Yes.

MR. BEAVER: --and show you cost over time.

The 8 percent that we talked to, with the ABP, as an example-- I'm not suggesting that that's the right level and what the right numbers might look like in any change design, if the Committee was so wishing to go in a different direction. But that was just an example of what the ABP does.

SENATOR GORMLEY: I agree with you. I guess what I'm saying is, we want to make sure that we pick a pension age for the new system that works -- whether it be 58, 59, 61, 62, whatever the number might be -- and that we pick a percentage of contribution that we know will be realistic. Maybe it's less than eight. At least those people would know, going in -- and we know, by real projections -- that it really is an annuity, that we really are funding it.

Now, by signing up for the -- working, now, through the insurance companies -- obviously, we would have a heavier burden on our shoulders to make sure that we make our payments. Isn't that correct?

MR. BEAVER: Yes.

SENATOR GORMLEY: In terms of penalties and whatever.

So it would be a good idea to have something of this nature as sort of a back-up guarantee, in terms of the good will of the State, in terms of keeping a commitment.

MR. BEAVER: Well, I think we can certainly model the cost over time, under various designs. The availability of funds is, I think, a different issue.

SENATOR GORMLEY: Well, I think for us, talking about property tax relief -- the public is going to say, "What does it mean? You've presented some interesting models, and you've talked about certain guarantees you're going to make, but what is the actual cost, going forward?" Because that's really what our focus has to be.

So you could project a variety of models, with different ages and different percentages of contribution, because it doesn't matter what program it is. It has to be within range of how we can keep our promise to have an impact on property taxes.

MR. BEAVER: Yes.

SENATOR GORMLEY: So we could work on that -- those models?

MR. BEAVER: We can certainly develop the financial model for any variation we wanted to consider. We can certainly-- And you'll see, as Mr. Reimert's going to present-- He shows you one variable today. And it's really-- We'll model it at the wish of the Committee. We're going to come up-- I think I mentioned to Senator Scutari, we're going to come up with some options that the Committee might want to consider from a financial perspective.

SENATOR GORMLEY: That would be very nice. However, what we need is -- from the Treasurer's Office, also -- what do you think you're going to have before we say we think we have a program? Shouldn't we have a sense of-- And it's hard to project numbers. But don't we have to do as best a job as possible to know what's going to be available that we're promising, so that we can-- And I know these are projections. But I think we have to show we reasonably anticipate, over the next few years-- At least we could kick the program off correctly.

So, if we could work with the Treasurer-- I know these are difficult things to do. But we are trying to demonstrate that we're going to be very credible on what we project will have an impact.

MR. BEAVER: We can certainly go back to the Treasurer and talk -- discuss that with him further.

SENATOR GORMLEY: Thank you.

Thank you.

ASSEMBLYWOMAN POU: Senator Rice.

SENATOR RICE: Thank you, Madam Chair.

A couple of questions: Don't we presently project what our future looks like, in terms of needs, under the system we have?

MR. BEAVER: We do financial models for what the expected budget experience would be for the out years. Yes, sir.

SENATOR RICE: And within a formula, that has to include a number for the number of employees in the system, right?

MR. BEAVER: Yes, sir.

SENATOR RICE: Okay.

So we still get elected, at the State level, every two and four years. And the Governor runs every four years. And so we can't project what's going to happen in each administration, regardless of what formula we use. Is that correct? Because the formula is driven by the number of participants. Is that correct?

MR. BEAVER: Yes.

SENATOR RICE: Okay. So, technically, it would be difficult for you, in my mind -- but you're probably smarter than I am -- to project what another system is going to look like, and how we're going to benefit, one way or the other, in terms of savings.

I guess what I'm getting at, Madam Chair, is that we got a little criticized, initially, when we started raising questions, because I really believe the press misunderstood some of the statements. Initially, when we started, I was trying to indicate to the Committee that we don't need to be addressing issues that are not going to give us any substantial savings. It may sound great and wonderful for the public to hear, because they want relief. And they're going to think we're doing something, when we're not going to do anything.

We need to go into areas where someone out there can tell us where they can see -- from their experience with formulas -- where there could be some real savings. Now, how we address those issues will be our concern, our politics, our blessings, as well as our demise. But we're going through areas that -- it's clear to me there are no substantial savings. And we're going to come up with this picture of smoke and mirrors, or something frivolous, and maybe drive a system in place that may do more harm than good to the system we have, and hurt a lot of people, long-term. I'm concerned with that.

ASSEMBLYWOMAN POU: Senator, if I can just interject for a moment.

SENATOR RICE: Yes.

ASSEMBLYWOMAN POU: I think the questions that you are raising -- or the points that you're raising right now can-- In a few minutes, we'll be hearing from our other presenter that's going to provide us with certain actuary information. And your questions may best be directed to their attention. Because it touches upon some of those particular savings, options, or suggestions that you're referring to, or alluding to, at this point.

So some of the savings, some of the options, some of the programs that are in their slide presentation will certainly give us some additional information. So if I may suggest to you that perhaps we listen to our next presenter. And a lot of the stuff that you're talking about might best be directed to his attention.

SENATOR RICE: Okay.

Let me ask this person a couple of questions, because I want to hear from him more.

Do you feel that-- Is the real issue one of revenue source -- to commitment? In other words, regardless of what system we're in, if we're not properly funding it at the level it should be, and keep it constant-- Isn't that where the real problem is with some of these systems, or with our system?

MR. BEAVER: I think I would answer that it's a piece of the problem. I think there's another piece around design.

SENATOR RICE: Because the record needs to be clear on that. Because whatever we come up with, it goes back to where we started many years ago. We never permanently fund anything in this State: the Transportation Trust, charity care. We put money in the pension, and it seems like it's going the right way, and we've got money, so we don't have problems-- We take it from there. In some kind of way, we've got to be clear -- whatever we do, we need to lock in and, if need be, hold future administrators and legislators criminally liable, if necessary, for touching those areas in government. I'm being honest.

My biggest concern, I guess, is now that I'm getting older, my parents are senior citizens-- And I look at my father's check. And sometimes I wonder how he makes it; and I wonder how the people who are not vested in the system make it out there. And so I'm more concerned -- not about me -- about what happens to the people coming behind us, and they leave these systems. And I don't want legislators to play with that, once we lock in something.

So I just want to be clear on that. I'm listening, and I'm taking a little newspaper heat. I don't have a problem with that. But I'm serious about where we go. I don't want to spend time on anything that you know is not going to give us any savings, whatsoever. And then we just change formulas, just to say we did something when, in fact, we did nothing, but may have done more harm. I don't mind taking the heat for that. But that's my position.

ASSEMBLYWOMAN POU: Thank you, Senator.

Mr. Beaver.

MR. BEAVER: Can I just make one observation to your point, Senator Rice?

There is-- And to-- Based on what this Committee recommended-- One of the observations that has been made is the -- both the OLS report and the Attorney General's report, or findings about the ability to make change-- And you still have that question about, what about the people under five years.

And just to give you a point of perspective: 20 percent of the population participating in PERS and Teachers' is less than five years. So I don't want to suggest that it's a small number. It's 20 percent of the workforce, both local and State. And the majority of that is on the local side -- has less than five years in the systems.

ASSEMBLYWOMAN POU: Thank you, Director.

Thank you so very much. Director Beaver, I'm going to ask if you could please stay for the balance of our meeting, in case there is any other questions.

But, at this time, I'd like to ask Mr. Reimert -- William Reimert, if you could please come forward.

I was referring to-- Mr. Beaver, I was referring to staying in the room.

MR. BEAVER: Yes. We're not leaving.

ASSEMBLYWOMAN POU: Thank you.

W I L L I A M A. R E I M E R T: Madam Chair, members of the Committee, I guess we're trying to get a slide presentation up there.

I believe-- I hope you have, in front of you, handouts of the slides.

ASSEMBLYWOMAN POU: Mr. Reimert, I'm sorry. If you would please, for the purpose of everyone here today -- if you could please introduce yourself and indicate the kind of -- what it is that you do, so that we have a clear understanding for the members of the public, as well.

MR. REIMERT: Okay.

ASSEMBLYWOMAN POU: Thank you.

MR. REIMERT: Thank you.

ASSEMBLYWOMAN POU: We know what you do, but we'd like everyone else to know, as well.

Thank you.

And welcome here.

MR. REIMERT: I'm sorry.

Thank you very much.

My name is William Reimert. I'm an actuary. I work with the firm of Milliman. And we are retained by the Division of Pensions and Benefits, and serve as actuaries to the Teachers' Pension and Annuity Fund, TPAF. So that is my -- if you will -- my role here, today. I'm an outside consultant to the Division.

SENATOR SCUTARI: So you're not in the pension system.

MR. REIMERT: I'm sorry? I'm not in the pension system. (laughter)

ASSEMBLYWOMAN POU: There we go. (referring to PA microphone)

MR. REIMERT: Hopefully--

Let me just go back for one second.

With your permission-- I believe the agenda indicated that I would be here to compare defined benefit and defined contribution plans. And I intend to do that. But I thought it might be helpful to give some background information about the cost of the current program -- and if it continues in operation, covering new hires and so on. And then, also, compare the costs of current programs with what would happen if they were frozen to new hires. This happens to have been work that was done by us, in the actuary to PERS, several months ago. So it doesn't exactly relate to the legal opinion you got from OLS last week. But I thought at least it would give you some background information. And I've been hearing some questions this morning about the relative magnitude of the potential savings that might be available in making some changes for future hires; and also to illustrate for you the deferred nature of those savings.

I thought it would be important to you, just as background information, to do that. So, with your permission, I'm going to start with that and then move on to what was requested on the agenda, the comparison of defined benefit and defined contribution plans.

Just one other thing. And I'll let you, Madam Chair, decide how you want to go. But, by nature, I'm an actuary. I probably will have a tendency, at times, to slip into jargon. And I would welcome questions as I'm going. If I'm saying something that -- I'm using language that is somehow confusing, or whatever-- From my perspective, at least, I'd be happy to be interrupted with questions, if you'd like, or whatever's your pleasure.

Having said that, the first slide that you see in front of you -- the first slide in the presentation -- focuses on the two biggest systems. It's based on year-old data. It's based on the last valuations that were done for both PERS and TPAF, which is as of last July 2005. And on the first graph, I just wanted to show what is the projected growth in the costs of PERS-State. We've left the localities out of it. This is PERS-State and TPAF. So it's the projected growth in those costs, based on the actuarial methods set forth in current State law. So this is just how that would roll forward. We looked at a constant employee population to be covered. We were not factoring in any growth in the number of State employees or decline in the number of State employees.

SENATOR GORMLEY: Is that factor taking in the debt -- catching up on the debt or staying current with new obligations?

MR. REIMERT: Included in these numbers is amortizing the unfunded actuarial-accrued liability. I assume that's what you mean.

SENATOR GORMLEY: Yes.

MR. REIMERT: It does not include the cost of amortizing or paying off the debt service on the pension obligation bonds.

SENATOR GORMLEY: So how much is outside of this? Because that's--

MR. REIMERT: That I don't-- I am not-- I have seen that, almost a decade ago.

SENATOR GORMLEY: All right. I'm sorry. It just seemed like a good question.

MR. REIMERT: I don't remember those numbers.

ASSEMBLYWOMAN POU: I understand.

What I'd like to do -- because I'm sure -- just as you've just witnessed, there's going to be a number of different questions, just by virtue of all of the information you're going to be providing us -- and some of that information may come as a result of the kinds of questions that the Senator is asking at this point.

What I'd like to do is try to see how -- for you to go through your presentation. We're going to probably need to get further clarification and additional information on some of the material or information you're going to provide us. So I'm sure this is going to happen throughout your presentation. So if you would please go through your whole -- you're entire presentation. I'm sure there's going to be a lot of areas that we're going to want clarification on. And whether-- Perhaps you're not going to be in the position to answer it all today. But we're going to ask you if you would please get back to us on those areas.

MR. REIMERT: I'd be glad to.

ASSEMBLYWOMAN POU: Thank you.

MR. REIMERT: Thank you.

Moving on to the second slide, what we did is just-- And, again, this is some work that was done several months ago. We had done a projection of what would happen if the current plans were just frozen to new hires. And what you see there, in red, is those projected costs in dollars; and the blue -- the top -- the blue area above that red area, if you will, is the savings in the cost. The blue had represented continuing to cover new hires -- future hires, rather -- in the current plan. So the blue area is the difference between the underlying cost of continuing the current benefit programs for all current employees, amortizing existing unfunded actuarial liabilities, and so on. All of those baseline costs are included in the red area on the graph.

On the third graph-- Oh, this is not what I wanted to happen on this slide, so maybe I'm--

ASSEMBLYWOMAN POU: Are you on Page 3 or 4 at this time?

MR. REIMERT: I'm trying to move to Page 4. And, unfortunately, this heading has expanded to cover everything.

ASSEMBLYWOMAN POU: Okay.

MR. REIMERT: This won't help the people behind me, but at least you have a handout from me -- if I can just talk through, for a minute--

ASSEMBLYWOMAN POU: Absolutely. I was just going to say that perhaps you could just explain that carefully.

MR. REIMERT: The point of the third slide is, we just wanted to do a very rough cut-- This is just for illustration purposes. We're not trying to recommend anything as what's an appropriate new plan or level of benefits for the future. But I thought it might be helpful just to lay out: What if you decided -- public policy reasons, whatever they are -- that the level of benefits should be cut in half? This is just an arbitrary -- just to illustrate the potential magnitude -- the relative magnitude of the savings. And that's illustrated in this graph, in the green area at the top of the -- at the very top of the graph. I think it's green. I have a black-and-white copy in front of me.

ASSEMBLYWOMAN POU: It is.

MR. REIMERT: Good.

ASSEMBLYWOMAN POU: It's green.

MR. REIMERT: Okay. Good.

And, again, the point here-- All that I'm trying to illustrate for you is the relative magnitude of savings that could be associated with making changes for future hires only, and also to show for you the deferred nature of those savings. And, clearly, the current -- over the near-term future-- And as an actuary, *near-term*, to me, means a decade or more. Over the near-term future, the very significant -- the vast majority of the pension contributions will be going to fund the cost of benefits for current employees, current members, and to amortize any existing, unfunded actuarial liabilities.

On the next few pages, I had a few caveats, if you will -- or things that I really wanted to highlight about these. The first one is: If PERS and TPAF were closed to new employees -- and I mean by that, the systems themselves were totally closed; I don't mean a new tier being set up providing, perhaps, somewhat lower benefits. But if, literally, those systems were closed off, the State contributions to those two systems would have to be accelerated above what's shown--

ASSEMBLYWOMAN POU: Mr. Reimert, if you would please--

MR. REIMERT: I'm sorry.

ASSEMBLYWOMAN POU: Yes, for the benefit of our public.

Thank you very much.

MR. REIMERT: I apologize, Madam Chairwoman.

ASSEMBLYWOMAN POU: That's quite all right.

MR. REIMERT: The underlying cost of funding the benefits for current members would have to accelerate somewhat above what had been shown in the earlier slides. And I just wanted to highlight that for you. If you just established a new tier, but still within the systems, that would probably not be necessary. So that's just something important to highlight.

A second thing I wanted to highlight is -- staying sort of in that vein -- if you closed the system, and set up a new, separate, defined contribution plan, or any other kind of a plan-- Well, let me just focus on defined contribution. That's really what this bullet covers. If you set up a defined contribution plan -- depending on how generous that plan is -- the probability is that, in fact, State contributions would have to increase over the near-term. They would not decrease over the near-term. And, again, as an actuary, *near-term*, *short-term*, is not a year or two, it's a decade or more. This is-- So that-- But I wanted to highlight that.

The reason for it is, under the current actuarial procedures -- and this is laid out in State law -- you use something called a *projected unit cost method*. I'll try to avoid a lot of jargon. But it just so happens that the way costs are determined for new employees -- typically younger people fairly far from retirement -- their normal costs, relative to their pay, is much lower than the normal costs -- the same item -- for an older, longer-service employee.

So if, say, for example, you wanted to substitute a new defined contribution plan that had the same cost -- contribution as the average normal cost of the current plan -- well, you'd be contributing, for new employees, at a higher level than what is the normal cost under the current plan. I don't want to get too bogged down in jargon, but because this may be counterintuitive, at least I wanted to try to alert you that, number one, it was occurring, and give you a sense of why that might be happening.

Third thing I just wanted to point out: In recent appropriation bills, less than what was the actuarially determined contributions were actually appropriated and paid. I just wanted to highlight for you that the graphs do not reflect any cutbacks in what would be the actuarially determined amounts. Those are the full amounts -- projected amounts for both PERS and TPAF.

I want to highlight that not all the plans are here. All of the uniform plans we left out, primarily because similar projections had not been done for them in recent past. And they are somewhat smaller than PERS.

And finally, just obviously, I would hope you understand this, but we think it's important to point it out to you: These are projections. They're estimates of the future. They're based on assumptions about the size of your member population, growth in compensation, investment returns, a whole host of things. And probably the only thing I know about them is, I have degree of confidence that things won't play out the way we assume. I don't know how they'll be different, but they'll be different in some regard.

I see a member--

Madam Chair, do you want me to keep going?

ASSEMBLYWOMAN POU: I'm going to ask--

MR. REIMERT: Okay. That's fine.

ASSEMBLYWOMAN POU: --if you would please continue.

And I'm going to please ask the Committee members if we could just kind of take note of all that. We'll get all the clarifications.

And you can make reference to the page number, if you can, just so that we can continue on and not get sidetracked.

Thank you.

MR. REIMERT: Oh, I'm sorry. I hadn't had this slide up earlier. I'll try to be better with that.

Moving along, the next thing I just wanted to briefly highlight are some of the options that you have for changing. And much of this you've heard in prior sessions. So I just want to kind of run through this very briefly.

Obviously, you could modify the current features in the defined benefit plans for new hires. Again, this is if you wanted to do it. You could consider changes in the accrual rate, the "n/55" calculation, if you will. You could consider changes in things like retirement age, disability provisions. I didn't try to give an exhaustive list here; these are just some examples. Or you could make more fundamental changes in the structure of the plan. You could change the way the plan appears, to have it appear more like a defined contribution, without actually being a defined contribution plan.

People-- You may have read in the press and seen reports about cash balance plans. A lot of the press about them has been quite negative. That doesn't mean that a cash balance plan has to be, depending on how you design it, a bad thing for employees. But I'm just trying to put that in a frame of reference, briefly, for you. Or you could go to the kind of a plan where maybe you provide a scaled-down defined benefit, based -- funded by employer contributions, and then a defined contribution or cash balance arrangement for the member contributions. And several states have taken that kind of approach.

The point here is: There's a wide variety of changes -- the types of changes -- some of them keeping the basic plan design, but tinker with things like the accrual rate, retirement age, and so on; or make more fundamental changes to that; or -- and there has been some questions about that already this morning -- you could create -- I'm sorry -- you could close the current DB plan, and then create a brand new defined contribution plan for new hires.

With respect to current members, you do have the ability, aside from this -- people with less than five years--

I'm sorry.

You do have the option-- You do have the ability to offer current members -- even if they may have a nonforfeitable right to the current arrangement -- you could offer them an option to move into a different plan. I just want to alert you that if you give people an option, what tends to happen is there would be some people, based on the facts and circumstances of their personal situation, where they would do better, perhaps, outside of a defined benefit plan; maybe in a defined contribution, or new hybrid plan, whatever you did. What will tend to happen -- and this is good, from the employees' perspective -- they'll tend to gravitate toward the plan that will generate the most valuable benefit for them. So just inherent in giving an option for people might increase costs further. That will depend on how the plan is designed and communicated.

Now, finally, for what I was supposed to primarily address in the agenda-- I'm sorry it's taken me so long to get here, but I thought some of that background information might be helpful to you.

The comparison that I'm going to go into-- I just want to alert you that I tried to reflect common features of defined benefit plans -- typical defined contribution plans. So it's somewhat simplistic. I'm thinking in terms of, sort of, the stereotypical, traditional, common kinds of these plans. And there will be exceptions to these rules that I'm summarizing here. So this comparison is not, "Well, if you're in defined benefit, you must be exactly--" What I'm saying is an advantage or disadvantage, or vice versa, defined contribution.

But, from a big picture -- from several miles high-- Just starting off, defined benefit plan has been discussed in earlier sessions. That plan defines, in the document, exactly how to calculate somebody's pension benefit when they retire, or become disabled, or whatever might cause them to draw a benefit; whereas a defined contribution plan -- just as the title implies -- it defines exactly what is to be contributed, annually, into each members account. So that is a fundamental difference between them.

As a result, just -- I'll try to move through this quickly -- active members in a defined benefit plan can determine, with some reasonable amount of accuracy, about what their annual pension would be when they retire. If they're going to work for 20 years, they would get 20 fifty-fifths of whatever their final average salary is, and so on.

On the other hand, in a defined contribution plan, what participants know is the magnitude of their current account balance, which reflects all contributions made to date, all investment earnings to date. But, beyond that, they'd have to start making assumptions about future earnings and future contributions.

In both defined benefit and defined contributions, the last point there: both active members and employers would contribute. In a defined benefit plan, employers must contribute whatever is necessary to meet the actual cost of the benefits. Things like member contributions, investment returns help to defray or offset what would otherwise be employer contributions. But whatever the balance is, it's the employer's commitment to meet that cost without regard to how high or how low that might be. On the other hand, defined contribution plan -- this has been pointed out earlier -- the employer's obligation is to make that specified contribution each year. And once that contribution is made, there is no further obligation.

On a defined benefit plan, the middle point-- Typically, in defined benefit plans like yours, benefits are paid as an annuity over a pensioner's or retiree's lifetime, or maybe the joint lifetime of the member and the spouse. Typically, in a defined contribution plan, the account balance is available in a -- for a lump sum distribution at retirement, or perhaps it might give the option for participants to gradually draw it out during their period of retirement. Typically, in defined contribution plans -- you could take a different route here -- but, typically, those plans do not either require or even offer an annuitization option, something that would allow or require members to convert that account balance into a life-long stream of income.

The final thing on this page: Hence, in a defined benefit plan, typically, retirees and their beneficiaries-- They receive a lifetime pension -- would be the norm. And, hence, the employer assumes any risk for increases in life expectancy. People live longer than expected -- the employer is going to have to pick up the cost of that. Obviously, if people do not live as long as expected -- well, then there would be some savings.

On the opposite side, defined contribution-- There, the employee, the retiree, the pensioner is the one who is at risk. What happens if they outlive that asset in their period of retirement?

Moving on, Page 11-- Employers can reduce their contributions from what actuaries might have predicted if, say, investment returns are more favorable. But, on the flip side, if investment returns are less favorable than had been anticipated, the reverse is true. Employer contributions would have to go up. And without belaboring it, this is true with respect to all of the other actuarial assumptions that are made in figuring out what the required employer contribution is: life expectancy, investment returns, salary growth, and so on.

Defined contribution plans: Here, the employee gets the benefit or has to absorb the risk of either favorable or unfavorable investment results, or anything else.

Defined benefit plans can adjust pensions -- and, in fact, the New Jersey plans do -- for cost of living, cost inflation, after retirement. On a defined contribution plan, if you look at very long time frames-- And, again, I'm an actuary. To me, very long is several decades -- 20, 30, 40 years. If you look at very long time frames, actual investment returns do tend to correlate positively with inflation. But over short time frames -- and, again, short time frames can be a decade or more -- that may not be true.

For those of you who may remember the 1970s and early 1980s -- flat to adverse investment results, skyrocketing inflation. Those were not pleasant times for somebody who might have been trying to rely on a defined contribution plan. On the flip side, from the early '80s through the late '90s, inflation was going down and the stock market was booming. Investment returns were high. That was a great period of time. So, again, it's a two-edged sword.

On the bottom of that page, I wanted to highlight-- Some people call this *leakage* in defined contribution versus defined benefit plans. In traditional defined benefit plans, people typically get benefits when they retire, become disabled, or their survivor may get something after they die, unless the member elects to get a refund if they terminate prior to retirement.

On the other hand, in defined contribution plans, there are more opportunities for what people call *leakage*. People may take loans against their account balances, if you gave that offer. There's a higher tendency for employees to spend those account balances for other purposes prior to retirement. And then they're left with what perhaps would have otherwise been an adequate account balance to provide for their retirement -- they may be left short.

Moving on to the next slide. Typically, especially in the public sector, defined benefit plans pay disability pensions. In a typical defined contribution plan, where the employee has to rely on the account balance only -- especially for younger workers, shorter-service workers -- that account balance is probably inadequate. As you heard with your ABP plan, you actually have an LTD arrangement to overlay that defined contribution arrangement.

The middle one: Defined benefit plans typically provide some sort of survivor or spouse pensions, lump-sum death benefits. Defined contribution-- Typically, the account balance is the death benefit. That's it. And when you come to retirees -- thinking of a retired member making provision for their surviving spouse-- Again, if that account balance is not annuitized, if it's just drawn down, there is a higher probability the account balance may be exhausted -- or substantially exhausted -- before the retiree dies, leaving very little to a surviving spouse or beneficiary.

The bottom of that page: Defined benefit plans can easily subsidize early retirement, giving people the opportunity, at age 55, and 25, as your current plan does -- I know that's subject to some review. But defined benefit plans can easily accommodate -- encourage people who may need to retire early or, perhaps, who the employer would like to see retire early. Defined contribution plan -- account balance is the benefit, period. There's really no opportunity to subsidize things like early retirement arrangements.

The next one on the top of the next page: Traditional defined benefit plan -- what I say there is, the plan skews benefit distributions toward older, longer-service members. And I just want to talk about this one for a minute, because this was actually something that a lot of employers were thinking about a lot in the 1980s and early '90s, when cash balance plans and DC plans were becoming very prevalent. They were dealing with what they saw as a very mobile workforce, a lot of young workers. A lot of women would be entering the workforce, maybe out of school, work for a few years, become married, perhaps move or leave employment for a period of time. And they were trying to provide more generous retirement benefits to those kinds of workers, as opposed to focusing so much of the cost of the pensions on the older, longer-service workers. Defined benefit plans are really a very efficient way of providing benefits to longer-service, career employees. And it's really not very good at providing meaningful retirement benefits to younger workers who are mobile, who will work for an employer for a few years and then move on. Defined contribution plans are the reverse. They're very good at dealing with those younger, more mobile employees.

It came out this morning in one of the questions -- the second thing-- In defined benefit plans, employers have flexibility in when they contribute. But as was also pointed out this morning, that flexibility brings a cost. Employers can, if you will, pay now or pay more later. Because when later comes, they have to pay interest -- both, if you will, the lost investment earnings on those missed contributions or reduced contributions. On the other hand, defined contribution plans-- There's no flexibility. The employer contribution is due. It has to be contributed into that member's account.

With respect to investment management-- I just wanted to touch on a few points there. In defined benefit plans, investments can be managed as a big co-mingled pool, taking a very long-term view, which permits investment managers to use more volatile asset classes that may be expected to produce, over a long period of time, higher returns. But in defined contribution plans, typically, if individual members can manage their accounts, they typically are more risk-adverse. They typically take a shorter-term view. And, hence, they use less volatile, less risky, but lower returning -- or at least classes with lower expected returns.

I think this is finally the last page of this. Employers, in a traditional plan, hence can make use of special asset classes like private equity, some of the asset classes that actually the New Jersey systems are starting to invest in and take advantage in.

With defined contribution plans, that's very difficult if not impossible to try to make those kinds of investment options, or options in those asset classes available to the individual members.

The middle, on that page-- Defined benefit plans can easily be amended to provide for things like early retirement windows, benefit enhancements, things that the employer may think is important to offer employees; and then allow the employer to pay for them over time. On the other hand, defined contribution plans cannot deal with those kinds of short-term benefit enhancements. The contributions just have to be made currently -- whatever is going to be offered.

The final one there is, just because of the nature of the plan -- the benefit, the amount of the annual pension paid to the retiree -- older workers can look forward to an assurance of some defined level, whether it's adequate or inadequate, whatever it may be. But at least they know what their pension -- their annual pension will be, coming out of the plan. In a defined contribution plan, there is more uncertainty about what that amount would be. It could be higher, it could be lower. It really depends on the investment market volatility, both shortly before and shortly after they may retire.

And having -- all of that, I'd be--

ASSEMBLYWOMAN POU: Thank you so very much. As undoubtedly we expected, that was a very comprehensive presentation.

I'm sure many of our Committee members have questions for clarification.

I just wanted to ask you a real quick question, before I open it up to the rest of the Committee members. In terms of the retirement plan design, in your opinion, what are some of the groups out there that we should be comparing ourselves to? Does it make sense for us to compare ourselves, for example, to the public pension plans like that of California or New Jersey (*sic*)? Do you-- What would be your recommendation?

MR. REIMERT: I would think that for maybe the majority of your employees -- I'm not positive that's true, but I would think so -- probably looking at other private sector employers in the state for a lot of the secretarial, administrative, management, financial kinds of positions. Where there is a similar position in the private sector, I would think you have to compete for employees with other private sector employers here in the state. I would think, in that context, that would be the right frame of reference.

But for other kinds of fields -- public safety is one that quickly comes to mind where there is really-- I don't think there are private sector police or fire kinds of employment opportunities. There, I think, maybe looking at other jurisdictions, at least in the region-- Maybe it doesn't make sense to go to the other coast, but at least, perhaps, in surrounding states that that could be relevant to those individuals, especially the ones who might be living close to the perimeter of the state where they might be able to -- by commuting -- change the site of their employment.

ASSEMBLYWOMAN POU: So, in essence, we're talking about looking at more of a regional or local pension kind of comparison -- even some of the private sector out there, would you say?

MR. REIMERT: Yes. I think certainly, for a lot of employees, private sector is the most relevant. That is where you have to compete for employees. That is where they could work if they chose to work elsewhere.

ASSEMBLYWOMAN POU: Thank you.

Senator Scutari.

SENATOR SCUTARI: Thank you, Madam Chair.

I want to ask you a numbers question, because you're obviously a numbers person. If we were to change every single person in these plans that we have -- the defined benefit program -- into a defined contribution program, and we're allowed to do that, would we save any money?

MR. REIMERT: It depends on the level of the defined contribution you made.

SENATOR SCUTARI: Well, let's talk about the one that was just presented by Director Beaver -- the one that is in existence already. We know about that. Let's just assume for the sake of comparison that every single PERS defined benefit program person -- no matter how many years they have in -- if we were to transport them into this program that Director Beaver discussed earlier, would the contribution out of the State be any less?

MR. REIMERT: If I can answer that with respect to Teachers', because that is a system I work on, rather than PERS.

SENATOR SCUTARI: Okay.

MR. REIMERT: There would be very modest savings initially. And the reason I say that is, the current normal cost for TPAF is just slightly above 8 percent of payroll. And so if you immediately stopped the -- froze the current plan-- If you froze it in a way so that all the benefit they earned for their past service stayed in place -- including their final pension being based on their final earnings when they leave State employment, not frozen as of today -- totally what they earned to date, all those features stayed in place--

If it was just going forward prospectively, new service would only generate 8 percent of pay, there would be a relatively small -- a fraction of a percentage of payroll kind of immediate savings, but it would apply to -- at least in TPAF -- the entire payroll. I'm not positive what the normal cost rate is in PERS, so I'm not sure if the PERS rate is slightly below or above that.

SENATOR SCUTARI: So when you spoke earlier about a model that assumed a 50 percent reduction for the purposes of comparison in benefits, and if you utilized that same 50 percent reduction in the Alternative Benefit Plan that Director Beaver just described, it wouldn't be an 8 percent contribution. It would have to be a 4 percent contribution.

MR. REIMERT: If you wanted to do something like -- order of magnitude -- cut it in half--

SENATOR SCUTARI: Comparatively.

MR. REIMERT: --yes. Yes.

SENATOR SCUTARI: Okay. Thank you.

ASSEMBLYWOMAN POU: Thank you.

Senator Gormley.

SENATOR GORMLEY: Let's reverse roles. How many pension systems have you looked at around the country? How many-- You've done this for a number of years. Have you had a lot of experience looking at other pension systems around the country?

MR. REIMERT: I mean, recently, I've been doing much more work in the public sector rather than the private. And I'm-- I mean, I'm currently doing some work for New York City, obviously New Jersey, Pennsylvania, and Ohio, so I have a fair amount of familiarity with them. And I've done work for other states over time, but it's--

SENATOR GORMLEY: Right. Let me ask the question a different way. You've looked at the New Jersey pension system. What would you cut? What would you change? Would you change the age? Would you change the contribution? What do you think should be changed in this system? What, specifically, is your opinion -- that should be changed?

MR. REIMERT: I hadn't thought about that, which is kind of shocking--

SENATOR GORMLEY: See, we have about 8 million people who are asking us this question. (laughter)

MR. REIMERT: --because I have opinions on everything.

SENATOR GORMLEY: You see, that's why I asked it. That's the reason we're doing the hearings.

MR. REIMERT: I mean, just to-- This is off the top of my head; I mean, I really haven't thought about this in that kind of a context, but my first, off-the-top-of-the-head reaction is having an employer contribute -- and I focus a lot on the normal cost-- Something like an 8 percent normal cost for pension benefits strikes me as in the right kind of a ballpark.

SENATOR GORMLEY: Okay.

MR. REIMERT: So, I mean, whether you would want it a little lower or a little higher, but it sounds to me like the right kind of a ballpark. I would-- I think the accrual rate, the "n/55," does strikes me as reasonable. It does not strike me as excessive.

Because life expectancy has been increasing and is expected to continue to increase, I think as a society we have to start to accept the fact that -- and I'm just at the leading edge of the baby boomers, I'm going to turn 61 in a couple of weeks -- I think people of my generation are probably going to have to work longer than people did in the past.

SENATOR GORMLEY: So the private plans that you've been working-- You've been working--

MR. REIMERT: I've done private work also.

SENATOR GORMLEY: All right. What are the ages of the private plans that you're recommending now to the private sector? What are the retirement ages in the private plans?

MR. REIMERT: Well, those are kind of two different questions. Most private-- In terms of the recommendation thing, most private plans are moving away from defined benefit to defined contribution, and in the context of defined contribution, it doesn't make sense--

SENATOR GORMLEY: Fine.

MR. REIMERT: Retirement age is not a relevant issue.

SENATOR GORMLEY: The money is mobile.

MR. REIMERT: Right.

SENATOR GORMLEY: So consequently-- But if someone even dared to mention continuing it -- continuing it--

MR. REIMERT: Right.

SENATOR GORMLEY: What ages have been mentioned -- 65, 67 -- what have been the ages?

MR. REIMERT: For a normal retirement age, certainly starting 20 years ago -- although this then died out by 10 years ago -- I would talk to my private sector clients-- Social Security and retirement age is being slowly ratcheted up. Perhaps you should consider doing -- at least doing something in tandem with what Social Security is doing. I mean, that may be about the best kind of an answer I can give you to that.

SENATOR GORMLEY: So if there is any specific focus we should have, it's you have a system that is in tandem with the Social Security retirement age?

MR. REIMERT: Well, I mean, I wouldn't want to force lockstep, and maybe-- The one other thing I see -- having, on the one hand, said-- I'm going to be a two-handed actuary here, I'm sorry.

Having said that mortality is improving, people are living longer, one of the other things I see when I do experience studies of mortality and retirement systems is, lots of times, the level of mortality for people who are retired in their 50s is higher than you would otherwise expect. Which says to me--

SENATOR GORMLEY: So we're helping them. (laughter)

MR. REIMERT: Well, its says-- I'm not sure what you mean by helping.

SENATOR GORMLEY: I'm sorry, go ahead. I was being slightly facetious. (laughter)

MR. REIMERT: And what that means to me -- and I've never tried to do any analytical work to get at the bottom of what is the cause and what is the effect--

But the two conflicting thoughts that I have when I look at those statistics is, on the one hand, it could well be that some of the people who are retiring in their 50s, in fact, have health, medical, physical conditions that really mean that they have difficulty continuing to do their job, and so--

SENATOR GORMLEY: Let me--

MR. REIMERT: I'm sorry, but if I could just finish my answer. Very briefly, if you are going to move-- If I was going to advance -- me in my infinite wisdom -- move the retirement system to a higher age, I would want to think through carefully how I'm dealing with people who may not have the physical ability to continue to do their jobs or may have some kind of impaired health.

SENATOR GORMLEY: No, obviously, a disability benefit of some sort, because of the inability to work.

So if we were looking at the initial charts you showed, where you indicated that you were doing a 50 percent cut in benefits -- and this was for conversational purposes--

MR. REIMERT: Exactly.

SENATOR GORMLEY: Okay. But did that assume the current retirement ages would be kept intact?

MR. REIMERT: It really didn't assume anything about the new plan design. It was just, if you will, an arbitrary, capricious, simplistic -- what if you, collectively, wanted to cut benefits -- the cost of benefits in half. It was that simplistic a thought.

SENATOR GORMLEY: Well, while we're talking assumptions -- I guess what I am saying is, consequently, if we were to extend the age to be parallel to the advances in society that you mentioned, you wouldn't necessarily be cutting the benefit at the retirement age in half. Because you would be extending the age, it would have to accrue over a longer period of time.

MR. REIMERT: Certainly that would be a possibility.

SENATOR GORMLEY: Yes. Okay. Let me ask a question. In the public-- In the private businesses you work with in the public sector, have you ever seen a split system based on pay scale? For example, suppose there are career employees who never earned over $100,000, or something less, and they were left in a defined benefit plan, but those who, once they get to status -- supervisory or over $100,000 or something of that nature -- at that year they would then transfer to a different system. Have you ever seen a dual system like that?

MR. REIMERT: Yes. It comes about in several ways.

SENATOR GORMLEY: Okay.

MR. REIMERT: Under Federal law, private sector qualified pension plans have to have a limitation on how much compensation can be reflected in pension benefits. I don't remember the exact number this year.

So in that sense, qualified plans are frozen. It is common in the private sector, as a result of that, to have what are called "supplemental" retirement plans covering higher compensated people. Sometimes they just pick up what's cut back, because of that and another limitation under Federal law -- I won't get into how it operates. Sometimes they actually provide more generous benefits to those higher compensated people -- I mean, they're sometimes less generous, sometimes more generous.

In the public sector, I haven't seen something that lays out something like that, or I can't think of something that would cut it off based on compensation. I believe, if I remember correctly, there are some systems who do things like -- coverage in the system is mandatory except, maybe, for supervisory or management people, or -- I'm not quite sure what the right phrase is -- appointed individuals; or there may be a separate system for elected officials and things of that nature. But it's not really compensation, per se, it's job description, somehow, related.

SENATOR GORMLEY: And I think you understand. Obviously, it would be difficult to go -- to answer in any depth right now, what I'm bringing out. But if, while you're looking at this issue, and everybody is looking at the issue, if we can look at the circumstances surrounding different levels of the workforce, maybe we would have a dichotomy drawn in terms of pension systems.

Because you have certain people in the lower income brackets where the cost of the defined benefit doesn't, obviously, compound at such a rate, and possibly, that could be maintained with a higher age. Whereas, those -- once they get to a higher level or supervisory level, would possibly go into a contributory plan.

So it's just something to think about, and any examples you have from the private sector we could look at, I would appreciate it.

Thank you.

ASSEMBLYWOMAN POU: Thank you, Senator.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Mr. Reimert, you said you also work in the private sector, correct? I'm sure you're aware about the new bill that was signed by President Bush. I'm concerned about the unfunded liability. The number that has been bantered around is, I think with the PERS, is about 83 percent. What is the TPAF, off the top of your head, ballpark? It doesn't have to be--

MR. REIMERT: Could I just look it up, because I don't--

ASSEMBLYMAN GIBLIN: Okay.

MR. REIMERT: Rather than quoting the wrong-- I knew somebody would ask me a question that I didn't know the answer to.

Based on the -- let me get in the right column -- based on the actuarial value of assets, as of last year's valuation, it was 80.8 percent.

ASSEMBLYMAN GIBLIN: Okay. That was done as of June 30, 2005?

MR. REIMERT: As of June 30, 2005, correct.

ASSEMBLYMAN GIBLIN: When will you have the current report done for this year -- June 30, 2006?

MR. REIMERT: Some time late November, December.

ASSEMBLYMAN GIBLIN: Is there any way of getting a preliminary report to the Committee before that?

MR. REIMERT: We might have the numbers, perhaps, a few weeks earlier. I doubt very much if we would have numbers much before November 1, on the most optimistic kind of a timeframe. But obviously, we need to complete all of our internal reviews and checking of the numbers, before we could release numbers. But if requested, we would be glad to share that information in advance of the full formal report, if that is requested.

ASSEMBLYMAN GIBLIN: I realize we can't compare the private sector with the public sector, but one of the major things with this new bill is that the actuarial assumption for plans in the private sector-- I've seen plans that were 105 percent funded, now, with the new requirements, are being told that they are 85 percent funded, correct?

MR. REIMERT: Depending on how--

ASSEMBLYMAN GIBLIN: No, just--

MR. REIMERT: --that was measured, that's possible.

ASSEMBLYMAN GIBLIN: That's possible. Okay. With actuaries and accountants, you generally have some type of generally accepted standards, right?

MR. REIMERT: Correct.

ASSEMBLYMAN GIBLIN: Even though you are not technically required to adhere to the private sector, will those same standards be used in your actuarial report for the current year? In other words, if they are telling you in the private sector you can only have 4-point something -- I think it's based on something with the bonds-- three or four different bond sectors -- if they come up with that number, will those same type of standards be used in the public?

MR. REIMERT: No.

ASSEMBLYMAN GIBLIN: So in other words, in the private sector, they are going to have to adhere to that lower rate--

MR. REIMERT: Correct.

ASSEMBLYMAN GIBLIN: --where you can conceivably be -- I think our assumption is, what, 7.25?

MR. REIMERT: 8.25.

ASSEMBLYMAN GIBLIN: --8.25, so it could almost be double?

MR. REIMERT: The private sector number is probably going to be in the neighborhood of the high 5 percent area. I think maybe 5.75 percent -- I think is the last number I had heard on it. Because I don't work private sector much, I may be confusing numbers.

ASSEMBLYMAN GIBLIN: Okay. I don't think it's that high, but still, it's possible it is going to be almost a 3 percent difference. Is that fair enough?

MR. REIMERT: It will certainly be significantly lower, no doubt about that.

ASSEMBLYMAN GIBLIN: Okay. If you were to put together a plan to fully fund PERS or the Teachers' pension system -- I mean, I know this year we took a major step of $1.1 billion in the fund-- Would you be able to develop a 10-year plan?

I think in the private sector you have to do seven, as far as meeting your unfunded liability. There are different zones, like a red zone and a yellow zone, I know, but if you're in a red zone I think you have to -- you're forced by the government to come up with a 10-year plan or else reduce benefits. Would you be able to kind of develop numbers of what that would take, over 10 years, to bring us out of the unfunded liability situation?

MR. REIMERT: We could certainly develop numbers based on the same rules that apply in the private sector, and if you -- and if that is something the Committee desires: No. 1, we would be glad to do it. But I just want to point out, there is another difference between the way the numbers are-- There are two important differences, in addition to the ones you mentioned.

One of them is, the numbers that I cited in calculating the actuarial liabilities anticipate future salary growth, in figuring out what the actuarial liabilities are. That's how we do them here. In the private sector, they focus on current pay levels in doing that calculation you just described.

The other big change would be: Private sector, I need to use market value of assets, as opposed to actuarial values. So there is-- At least, if somebody wants us to do it, it would be important -- should we follow all the private sector rules -- the new law that was just enacted -- or would you want something, something different? It would just be important to specify all of that for us, so we could do what you wanted.

ASSEMBLYMAN GIBLIN: Well, just one last observation. With the presentation that you made on defined benefit versus defined contributions, you don't give me a lot of reasons to go into defined contributions based on a lot of the negatives that are there. I mean, it just doesn't seem to be -- with the big picture, if somebody was going to make government their career, they would be better off opting for the defined benefit.

MR. REIMERT: Probably that presentation -- probably, then, reflects my personal bias. I was trying to be neutral, and I probably failed. But for at least some employees -- I hope I mentioned this earlier -- for at least younger employees who come to one job, leave it after a few years, go to another job, or maybe drop out of the workforce for a few years and then return -- for people like that, actually, defined contributions plans are better. Hopefully, I didn't paint it as all black and all white. But on the other hand, personally, I think defined benefit plans have a lot of value as part of our country's retirement policy.

ASSEMBLYMAN GIBLIN: One final question. This new shift in policy with investments, as far as the pension funds are concerned, when did that take effect?

MR. REIMERT: A year or two years ago. John do you-- (speaking to John Megariotis)

ASSEMBLYMAN GIBLIN: Okay. Would you be able to give us a comparison -- how better we're doing or where we're at as compared with our rate of return, or are we seeing any steps forward, as far as a better return on our investments?

MR. REIMERT: Probably the information I have would not be adequate to try to address that, but I would think your Division of Investments--

ASSEMBLYMAN GIBLIN: But wouldn't you be able to see that from your accountant's report?

MR. REIMERT: I haven't seen this year's, but unless they have done something to isolate those investments, I probably would not know exactly how much of the total investment pool is really in those new kinds of investments that are being made. It would probably-- I'm guessing it might be reported to me in a co-mingled pool, but that--

ASSEMBLYMAN GIBLIN: I know, but would it be employer contributions, employee contributions, and then investment income? I don't know how else you would-- Why wouldn't it be broken down? I don't know where else you would be getting income into the fund. So I'm looking forward to see if there is any improvement in terms of investment income -- to see if it is proving out to be successful.

MR. REIMERT: To try to-- As I understand your question -- to try to answer your question -- I would have to be able to get at information regarding how the assets used to be invested, because things like bonds have very different returns from publicly traded--

ASSEMBLYMAN GIBLIN: No. I'm not looking to get--

MR. REIMERT: But to answer the question about whether the new investments are improving things, I have to be able to isolate their returns and compare them with the other types of investments that you have traditionally made, and continue to make, which -- and to do that, I would need a lot of information that I don't get.

Again, if somebody would like us to do that, I would be glad to attempt to do that, but I'm thinking you can probably get it internally from your Division of Investments.

ASSEMBLYMAN GIBLIN: The only thing is, when I saw the investment managers -- the number that stuck out in my head -- they were going to get $221 million for commissions for handling these funds. I don't think it's too much to ask to break it all down and show me how we're doing, as compared -- with the new system they have for investments. They should be able to do that pretty easily.

ASSEMBLYWOMAN POU: Assemblyman, perhaps--

Mr. Reimert, perhaps this is something that Director Beaver might be able to provide us some inside information on, since it does involve or effect the administration of it.

DIRECTOR BEAVER: I think--

And I know this issue has come up before, Assemblyman.

I think if you really want a clear answer on this, we need to invite the Director of Investments in to address the Committee. All the data that arrives back to the actuaries shows employer contribution, employees contributions, and investment returns on a co-mingled basis, as Mr. Reimert described.

So I think we would need to get Bill Clark from the Division of Investments down to address the concerns you have about how the investment performance has occurred since they have gone to a diversified strategy. I would suggest that maybe Mr. Clark be invited in to address the Committee.

ASSEMBLYWOMAN POU: Thank you.

DIRECTOR BEAVER: Thank you.

ASSEMBLYWOMAN POU: Assemblyman, did you have any further questions?

ASSEMBLYMAN GIBLIN: No, thank you.

ASSEMBLYWOMAN POU: Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Thank you, Madam Chair.

A couple of questions, William. On page two, you had a projection of PERS, in the State, and the TPAF, assuming the current plan continues. You start with the baseline, 2007, as a $1.5 billion contribution.

Do we have that actual contribution? Is that what is being invested in fiscal year 2007?

MR. REIMERT: I don't have that.

John, do you? For PERS and TPAF--

Oh, I'm sorry. I was just saying I don't have the answer to that. I was asking if--

MR. MEGARIOTIS: This $1.1 billion was appropriated for all of the systems. So the $1.5 billion that is reflected would be the total contribution that would be made if we made the full contribution into PERS, in the State, and TPAF for fiscal 2007.

ASSEMBLYMAN O'TOOLE: Okay, but what is reflected is not what has actually transpired. So we're actually $400 million off of what was contributed for 2007?

MR. REIMERT: That is correct. What I tried to show in this graph is what, under current law -- not the appropriation bill, but under current law governing retirement systems -- what's the actuarially developed contribution that is specified in law.

ASSEMBLYMAN O'TOOLE: And your projection going to 2022, we are looking north of $3.3 billion. You said there was no projection of growth within that current system.

MR. REIMERT: I'm sorry, in terms of the number of employees, that's correct.

ASSEMBLYMAN O'TOOLE: Yes. I'm just trying to understand how you reconcile that when you look at the last five years -- had the graph gone to the left-- In 2000 and 2005, there were 56,600 new employees in the system. If that trend continues, I don't think there is enough room or ink on this page that can trend up and, remarkably, graph the necessary upward spiral of contributions necessary.

MR. REIMERT: Okay, that is an excellent observation, and again, what I did for this presentation -- after listening over the Internet to the prior hearings-- As I said, we had done some work several months ago, it was in a different context for a different purpose, and I thought it might be helpful to just lay out, under one scenario, what the relative savings might be and so on. I wasn't trying to represent that this was a best-estimate prediction of anybody -- about what these numbers would really be.

ASSEMBLYMAN O'TOOLE: Okay.

MR. REIMERT: So I'm glad you raised that question. That was not what these were trying to do.

ASSEMBLYMAN O'TOOLE: All right. And the question I asked Director Beaver -- and I think we all decided you would best be in a position to answer this question, and I'm not quite sure I've heard it.

If we close, let's say, PERS today, and either discontinued a pension system, went into some alternate universe, 401(k) or something else that we have discussed or not discussed, your testimony suggested that the accrued liabilities would need to be accelerated if that were to take place.

Here is the question, Bill: If we have -- the current system shuts down and there are no more employees or individuals being fed in, will that unit sustain itself with the employer and employees -- current -- continuing their contributions -- the 8 percent, the 5 percent? Will that allow for benefits 10, 15, 20 years out, to the extent that the current enrollees will have worked their way through the system? Will it pay for itself or will the State have to kick in additional dollars because there is no new revenue source if we're stopping, today, the entrance?

MR. REIMERT: Right. The total-- Yes, the State would have kick in more. That is illustrate--

ASSEMBLYMAN O'TOOLE: How much?

MR. REIMERT: I don't have an answer to that, but let me try to answer your question. The reason I'm saying that the State would have to kick in more is not because the total unfunded liability would change as a result of that. The total unfunded liability would be substantially unaffected if all current members stayed in the system and continued to earn their benefits, and so on.

It is under statute -- the way we amortize that unfunded liability -- it is what is called using "rolling 30-year periods." And I believe in one of the earlier presentations somebody made the point that every year that -- the amortization payment is spread over a new 30-year period. Well, that kind of an arrangement of -- ultimately, would fall short of giving enough assets to fund the pension of the last cohort of people still in the system.

And so the point I was trying to make is, the total amount of the unfunded liability that exists would not be increased, but you couldn't go on forever re-extending over a new 30-year period, every year indefinitely, because sooner or later you would be financing-- You would have one retiree left getting their last pension, but you would be trying to take 30 years to pay off the last amount.

And all I was trying to do was focus-- The contributions here would have to accelerate somewhat. It probably would not be very meaningful over the first -- over the next 10 years or so, but it would have -- these numbers would have to be adjusted to reflect that.

I mean, I'm sorry I'm being technical, but I just wanted to put that fact on the table.

ASSEMBLYMAN O'TOOLE: I'm doing my best to follow you.

Senator Gormley had asked a question about your opinion -- and I know you're uncomfortable, I suspect, without giving some in-depth research -- but with regard to the 2001 law that lowered the retirement age from 60 to 55, was it your testimony that you thought that was reasonable -- that the retirement age has been lowered to 55 years of age? Did I hear you correctly?

MR. REIMERT: I didn't think the 2001 change effected the retirement age. My recollection is that it effected the "n/55" -- the benefit formula--

ASSEMBLYMAN O'TOOLE: The benefit formula, right. Correct.

MR. REIMERT: What year--

ASSEMBLYWOMAN POU: The calculation of that, right.

ASSEMBLYMAN O'TOOLE: The calculation.

I thought it was interesting that you said that those who worked longer for the State of New Jersey live longer. And I understand the caveat that maybe it is a sicker population that have to retirement earlier. And you studied mortality tables. And it seems to me, over the last two decades that I have looked at them, that we have had a remarkable upswing, because there is a higher percentage of dollars dedicated to senior citizen care, well care--

And if that is the case, should we be looking at trying to project -- understanding that folks are going to live 78.6 years of age, as opposed to, years earlier, in the later 60s -- we need to create a bigger pool of money to carry the additional, on average, 5, 6, 7, 8 years -- on average -- that the retirees are living, just because the quality of life has improved dramatically over the last 20 and 30 years?

MR. REIMERT: What you're saying exactly has to be taken into account in the calculations, and actually it is reflected in the mortality assumptions -- certainly on TPAF, and I assume the same is true for PERS.

I think Director Beaver had mentioned that every three years we do studies of the actual experience and try to fine-tune all of the actuarial assumptions -- obviously, life expectancy is one of the critical ones -- and to try to make sure that we're making adequate provisions not only for just current life expectancies, but to reflect anticipated continuing improvements for life expectancies for people.

So we're trying to do that now, and we've done our best. Hopefully, we've done a reasonable job.

ASSEMBLYMAN O'TOOLE: Right. The last area that I would like to ask you about -- and I think this is probably the bigger problem, and I don't know how we can get our arms around it currently.

The individual who works as a public employee and starts out making $20,000, last five or six years tops out $50,000, $55,000, $60,000, would get a benefit pension that they have paid into -- roughly $25,000, in that range, for a lifetime member who has worked-- And to me, that seems fair. They have paid in. If they have worked -- rough calculation -- 25 years, at $50,000, they have paid in and the employer has paid in paying $140,000; and if they live 20 years their benefit will be $500,000, but that will be their market value of the $132,000 that has been invested over the years. It seems to me, the State is not losing money in that respect, it's like their getting what they have paid in.

Here is what really bothers me. If you're an individual who worked 22 years at $1,500, their contribution -- the State contribution, roughly, is about $4,000 for those 22 years. Their last three years at $50,000, their contribution kicks up to about $19,000. Their total contribution, pensionwise -- State and employee -- is $23,000. The first year they retire, they're making more than their total contributions. If they live 20 years, guess what happens? There is $450,000, $470,000 above and beyond what was invested or put aside for them. I think that is where we have to get our arms around--

The question is, how many of those folks occupy that space, and how many dollars are we talking about?

MR. REIMERT: I don't know. I'm glad you elaborated on that, because I had misunderstood where you were going in the first part, and unfortunately I don't have the answer to the question you asked.

I don't know if it would be okay for Director Beaver or somebody else to try to address it.

ASSEMBLYMAN O'TOOLE: He is rolling his eyes, so I doubt it's Director Beaver. (laughter)

ASSEMBLYWOMAN POU: I believe, Assemblyman, and I believe, Mr. Reimert, we all understand the point that Assemblyman

O'Toole is making. Certainly, it is a concern to all of us. It is one that we will be looking at very carefully, and I think it is something that Assemblyman O'Toole wanted to bring to the table for the purpose of just highlighting the issue.

What I would like to do is-- I know that we have another presenter. We still have another member--

ASSEMBLYMAN O'TOOLE: Well, if I can just follow up--

ASSEMBLYWOMAN POU: I'm sorry, I'm not going to stop you from continuing your discussion or asking any further questions, I'm just trying to maybe move things a bit ahead just so we can make sure to get to all the points, and have the opportunity to get to Senator Rice's questions, as well.

I'm sorry. Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: What I was trying to elicit and I was trying to get a better feel for, in my limited questions, was that it appears to me that we have to raise the threshold for folks going into the pension system if, in fact, we are concerned about the fiscal health and viability of this pension going forward. That seems to me -- the low-hanging fruit has to be done -- just has to be done.

The question is, from an actuarial standpoint, do you have a number as to what that threshold should be, given the parameters of what the contributions are on the employee and employer side, number one?

And two, do you have an opinion as to what amount of years an individual should be considered -- whether it be 2 years, 3 years, 1 years, 10 years -- as to what the consideration should be given as to what that pension should be equated or figured out to be?

So do you raise the threshold to $5,000, $10,000; should it be full-time individuals? Is that really becoming the problem? Where you have these $1,500 folks taking advantage of the system? Is that part of the problem, or is that just sexy politically and not really fiscally impacting dollar one?

MR. REIMERT: I don't know the answer to that question. Maybe the best answer I can give is, I think sometimes the appearance of manipulation, in and of itself, is damaging; and if at all possible, the opportunities to do that taken away. But I don't know-- I have no sense of how often that happens, how big the dollar impact might be, and so on. I can't--

I'm sorry. I just don't have that kind of information. I think the Division is trying to obtain it, but--

ASSEMBLYMAN O'TOOLE: But I'm saying, from the actuarial standpoint in terms of the health of the pension -- say PERS -- is there some scientific equation that says we should raise the threshold *X* amount of dollars to guarantee that those games are not being played in the system?

MR. REIMERT: I guess I don't understand the question of raising the threshold.

ASSEMBLYMAN O'TOOLE: $1,500 gets you into -- that's your lottery ticket to get into the pension system.

MR. REIMERT: Oh, I'm sorry. Now--

ASSEMBLYMAN O'TOOLE: And there are various bills -- Democrat, Republican, even Governor Corzine indicated -- that individuals should work about 1,000 hours or have somewhat full-time status--

So the question is: Is there some threshold, professionally, from your standpoint, that one has to obtain before they can "be enrolled in the system?"

MR. REIMERT: Okay. I wouldn't-- My personal view-- My personal view would be it's not so much the threshold that allows you to get into the system -- although I think something like 1,000-hour threshold is a reasonable one, or higher -- something higher would be reasonable. To me, it's less a threshold problem, than, it seems to me, the amount of service.

There is a problem if you credit somebody with a full year of service if they're working five or ten hours a week, and then allow them, late in their career, to suddenly start working 40 hours a week, and suddenly ratchet up their pension. I mean, that's just one kind of an example.

In the private sector, a very common way of dealing with that is, if you only work five hours a week and a normal work week is forty hours a week, if you are in the plan, we would only give you credit for five-fortieths of a year of service.

ASSEMBLYMAN O'TOOLE: That makes sense.

MR. REIMERT: And so if you work for 20 years at that rate, you know, you would have only earned -- I can't do the arithmetic -- 2.5 years of service, or whatever the arithmetic is.

ASSEMBLYMAN O'TOOLE: Okay. Understood. I think I have it. I have the answer. Thank you.

Thank you, Madam Chair.

ASSEMBLYWOMAN POU: Thank you. Thank you so very much.

Senator Rice.

SENATOR RICE: Thank you, Madam Chair.

Now, I'm going to try to be--

ASSEMBLYWOMAN POU: Thank you for being so patient.

SENATOR RICE: --as brief as I can.

Let me just say for the record, I don't like to rush through these things. That's why when I hold hearings up and down the state, I let everybody go home and I stay there myself. It's important that we get questions out and we know what's going on.

But I can be a little brief here with you. I'm concerned, number one -- I need to go back to your entity-- What exactly was your charge in this report? And I'll tell you why in a moment -- because a lot of questions and answers going back and forth that don't make sense to me. But what is your charge? I have a report here, and I didn't know what the charge is.

MR. REIMERT: I think roughly--

ASSEMBLYWOMAN POU: Could you put your mike on, please? (indicating microphone)

MR. REIMERT: I'm sorry. I apologize.

I think, roughly, a week or 10 days ago I was asked if I could appear to make a presentation today on comparing defined benefit and defined contribution plans. The Division of Pensions and Benefits asked me if I could do that. I said I was available, and I would be glad to attend.

On Tuesday afternoon, we had our first chance to get together and talk about what I would -- what items I would try to cover in the presentation, And at that time, I suggested that I thought -- having listened over the Internet to the prior hearings, where I was hearing questions come up about the magnitude of the costs, how they were going to grow into the future -- I thought it might be helpful to the Committee to try to lay out how those costs might grow if the current systems stay open, how those costs might grow, alternatively, if the systems were closed, to give you a sense of that.

In discussing it with the Director and his staff, they agreed that that seemed to them like good background material. We didn't have enough time to do anything new. We just went back to some old work that had been done for the Task Force several months ago -- in a different context -- but it seemed to be-- We were hoping it would be helpful, and relevant, and of benefit to you.

SENATOR RICE: Okay.

Madam Chair, and Co-Chair, my problem is that, coming from my background, I'm hearing answers and responses to questions that are going to lead us the wrong way in terms of assumptions.

We have until November, or some time, to try to address the problem. Now, it's my understanding that the four Committees working this summer are to try to figure how we can save the taxpayers' dollars, primarily because of the reliance on property taxes. To date, I haven't heard one way or recommendation as to how to save monies.

But in terms of this presentation, I'm concerned. I'm concerned, because Senator Gormley initially raised the question, as we looked at the State projected contributions if the current plans continue -- which is your graph. And the question was, what variables or elements were actually there. And it became clear that there may be some area of liability that was not inclusive.

And if, in fact, they're not inclusive, then we can't really project that there would be any savings at all. In fact, there may be some serious losses. And then we proceed from that, and we go into raising questions about the various plans. And certainly, if you look at the definitions and some of the substance of a defined benefit plan versus contribution, defined benefit makes more sense, because you do know where you're going to be in the future.

Now, I see my job as not only trying to save the taxpayers' dollars, but I take it very seriously -- I guess because I'm from a poor, struggling family, and I understand people working hard and long -- is to protect the earned rights and benefits of workers, too, in this system of public employment, as well as the private system when they have problems.

Now, how do I get there, in the next few months or few weeks, for the Governor, with something substantive if, in fact, by your own admissions, you have information that -- you indicated that the graphs and the contributions -- other contributions projected here and things we're discussing-- This is just information from the administration, more or less, and that you have not ordered your entity or verified the data.

Now, where I come from, you do *A* before *B*.

ASSEMBLYWOMAN POU: Senator, do you have specific questions--

SENATOR RICE: Yes.

ASSEMBLYWOMAN POU: --for the gentleman?

SENATOR RICE: Yes, this a specific question. If you're going to push me through this -- if that's the Committee, I'll do it.

The specific question is whether or not you are going to analyze this data -- is that a charge? Because what we are working on is something that we didn't need him for, we could have done it ourselves.

You may not like to hear that, Madam Chair, but the thing is, we're working with information from the administration that was not audited or analyzed. And if the information is not accurate, then you are making false assumptions based on your actuarial experiences.

MR. REIMERT: You're referring to the last page of the handout?

SENATOR RICE: I'm referring to all of this data that you're making-- I'm referring to your statement that -- you know, it's a disclaimer.

MR. REIMERT: That's right, it is a disclaimer, and let me elaborate on it.

Some of the-- The information in here, with respect to TPAF, is based on participant data that we receive from the system. We checked it in the sense of comparing it to prior-year census data we got. It appears to be reasonable to us. Where we have questions, we go back to the Division and we ask them, but we did not do anything with that data that could be, under any reasonable definition, be called an audit or a thorough review of that data.

We have no reason to question the data we got from the Division of Pensions and Benefits; but on the other hand, we think it is just responsible to-- We don't want to mislead you into thinking that we have audited all of this data and everything is 100 percent that we know, from soup to nuts, because we haven't done that.

And to the best of my knowledge, no actuary who works for a public retirement system or a private sector pension plan would, in fact, do that as part of their job. But we think for disclosure, we owe it to you to tell you that.

Also, in putting the graphs together, I used some contribution projections that were done by the actuary for PERS. I just accepted their numbers. I have no reason to suspect that they are wrong. They look totally reasonable to me -- what they did. But on the other hand, they are not my numbers. I haven't done them. I haven't checked them. I haven't audited them.

It just seems to me that it is only fair to alert people, who I am giving that kind of information, to what I have, but more importantly, what I have not done. That was all -- all that I was trying to do.

And I'm sorry if I'm confusing things, but that was the intent of that last slide.

SENATOR RICE: Let me end this, because it's obvious the Chair is in a hurry.

Let me ask, through the Chair, would you get with the Co-Chair and see if, in fact -- because I don't know how long it will take, and maybe we don't have the luxury of time -- that maybe we can go back--

ASSEMBLYWOMAN POU: Senator, we have all the time in the world. I'm just trying--

SENATOR RICE: I'm not talking about for the Committee, I'm talking about to get answers, okay?

ASSEMBLYWOMAN POU: Oh, okay. All right.

SENATOR RICE: To maybe go back-- At least question how long would it take to really get another source so we can have some comparison to analyze the data. Because if we're working with misinformation based on assumptions, because we didn't do our job in-house-- Because Senator Scutari asked a couple of questions. And one of those issues you raised when I asked the first question -- I'll trust my remarks -- that you really actually do, kind of, comparative analysis of two systems. Well, you can't do that without proper data. But Senator Scutari asked a question that if, in fact, we change every single person, how much will we save? Well, you can never know that until we analyze the data to make sure we're working with good information.

So, through the Chair, hopefully we can get that.

I don't mean to be facetious at these meetings, but I've been here 20 years. I handle things a little differently. I want to hear -- I want to make sure we have the right people. I want to know that we are doing *A* before we do *B*. That is how we got into this mess in the first place -- long before some of you got here, we didn't do things right. (applause)

ASSEMBLYWOMAN POU: Thank you, Senator.

What I would like to point out is that the information that Mr. Reimert is referring to in his presentation--

I assume, Mr. Reimert, you have received all of your data and information from the Division of Pensions and Benefits? (nonverbal response)

So the information that they are using, Senator, is right directly from the Office of the Director -- Director Beaver's Office in Pensions and Benefits. And those assumptions are based upon those particular numbers, and the recommendations or options for consideration based on those actuaries are precisely -- or mostly -- done based on that information.

I understand what you are saying. What appears to me is that you would like to have someone in addition to--

SENATOR RICE: To verify.

ASSEMBLYWOMAN POU: --Mr. Reimert, other than just the information-- And that is something that we will have to take a look at, and see what the possibility -- within the time frame that we currently have going on right now -- to give us that kind of information still within the time frame of the work we are looking to do within the next couple of months.

Thank you so very much, Mr. Reimert, for all of your information that you provided us with today.

I would like to, at this time, ask our representative from New Jersey TRANSIT if you can please come forward.

We have prepared the stage for you.

H. CHARLES WEDEL: Good afternoon.

ASSEMBLYWOMAN POU: Good afternoon. Welcome.

MR. WEDEL: I'm Charlie Wedel. I'm the Chief Financial Officer for New Jersey TRANSIT. It's a pleasure for me to be here today.

I wanted to explain to you how Executive Director George Warrington, the Board, and the staff of New Jersey TRANSIT are taking steps to address the critical issue of the escalating pensions costs that we've seen.

Recognizing double-digit growth in pension benefit costs, we're focusing on managing, containing, and reversing cost curves over the long-term. Now, that's the important point. What I'm detailing today is not an immediate short-term solution, but rather controlling expenses and mitigating future cost increases.

Historically, New Jersey TRANSIT's non-agreement employees and bus union employees have enjoyed defined benefit pension plans that are, in many ways, similar to PERS -- in that those employees vest after 10 years, and the benefit is determined based on the formula that is a function of the employees final average salary and the years of service.

Also, for your information, New Jersey TRANSIT's rail employees are covered by the Federal Railroad Retirement System, and its police department is covered by the State Police and Firemen's Retirement System. New Jersey TRANSIT also has a small number of employees who are on New Jersey TRANSIT's payroll but who participate in PERS.

As you can see from the slide, since fiscal year 2001, defined benefit pension costs have increased 126 percent, from $27 million to almost $61 million. And despite this significant increase in contributions, the liabilities for accrued benefits under the plans continue to exceed pension benefits -- I'm sorry, pension assets.

With the start of the current fiscal year of 2007, New Jersey TRANSIT implemented a new defined contribution plan, a 401(a), for new nonagreement employees. This plan, with a fixed company contribution, is in lieu of the traditional defined benefit pension plan. Current non-agreement employees will also be offered the option of switching from the current defined benefit plan to the new 401(a) plan. And like current non-agreement employees, new non-agreement employees will still have the option of contributing to a traditional 401(k) plan, which would supplement their primary 401(a) plan -- the new plan that we had set up.

Just for definition, a 401(a) plan is similar to a 401(k) plan in that both allow for contributions to a tax-deferred account. However, a 401(k) plan allows for both employer and employee contributions, and a 401(a) plan allows for employer contributions only. New Jersey TRANSIT had a few 401(a) plans previous to setting this one up for the non-agreement employees. We also have a 401(a) plan for rail employees.

So what does this new pension plan mean for New Jersey TRANSIT? In a nutshell, it means predictability and control. The plan is designed to mitigate future cost increases by providing for a fixed contribution to the employees' retirement account, and will allow the agency to have a greater degree of control over future pension expenses.

Under the new plan, participating employees no longer have a defined pension benefit. Rather, New Jersey TRANSIT will contribute 6 percent of the employees gross salary to the 401(a) plan. Decisions on how to invest the balances in these accounts will be controlled by the individual employees. Benefits at retirement will be a function of the total amount contributed by the Corporation and the investment earnings on these contributions.

In addition, the new plan will offer several advantages over the existing plan, including the following: Participants in the new plan will be fully vested after three years, compared to ten years in the current plan; benefits will be portable for a mobile workforce -- that means to say that when the employee transfers or leaves the company, he can take the balance with him; the employees will control the account and select the investment options; and at death the amounts will be paid to the employees' designated beneficiary.

In order to provide current non-agreement employees the option of transferring to the new 401(a) plan, later this year our actuary will calculate the current values of accrued benefits in the defined benefit plan for each non-agreement employee. New Jersey TRANSIT is planning extensive communications with employees to explain this option and the potential transfer to the new 401(a) plan.

Our target is to complete the account transfer to the new plan, for the employees who opt to do so, early in 2007.

I would also note here for the Committee that New Jersey TRANSIT is currently in labor negotiations with its bus agreement employees, and the company has proposed a 401(a) plan -- a new 401(a) plan consistent with the 401(a) plan that was put in place for the non-agreement employees.

This last slide -- this slide shows you how many participants we have, both active and retirees, and the assets that are in the plan. So we have about 10,200 participants, and $860 million in assets in the plans.

And finally, the other point that I made, and this slide would indicate -- despite the fact that we've had significant increases in pension contributions, and we have made those contributions every year based on the actual calculated pension contributions that needed to be made -- that our accrued benefit obligations still exceed the assets in the plan. And so we're unfunded, at this point in time, by about $90 million.

That concludes my remarks. I'd be happy to take any questions.

ASSEMBLYWOMAN POU: Thank you. Thank you so very much.

Senator Scutari.

SENATOR SCUTARI: Can you just clarify why it is that you are underfunded by $91 million -- is that because of market conditions you've seen?

MR. WEDEL: Well, what we had seen over the last number of years -- especially since 2001-- If you go back to prior to 2000, we were positively funded. We were, in fact, an overfunded account. What happened there -- as a result of the market not doing well and our investments not earning up to the assumed interest assumptions; the fact that we did improve the benefits on the plans, we improved the formula so the benefit payout was greater -- we effectively increased the past service costs. And as a result of that, that amortization of that past service cost is going to be over a number of years in the future, and so it will take a number of years, basically, to catch up.

SENATOR SCUTARI: What was the benefit increase that you provided back then?

MR. WEDEL: We had-- Our benefit is based on a percentage of the salary and the number of years of service. We were at 1.75 percent, and we increased it to 2 percent of salary, which is what it is today.

SENATOR SCUTARI: And have you had an opportunity to analyze the other plan that Director Beaver presented on, with respect to the Alternative Benefits Plan, that's--

MR. WEDEL: No, I have not.

SENATOR SCUTARI: But you were here, and you listened to it?

MR. WEDEL: Yes, I did.

SENATOR SCUTARI: I mean, does it sound something similar to what you're doing -- just a variation on the percentages and the matching?

MR. WEDEL: Somewhat. I think somewhat similar. But our key here is that we are grandfathering everybody who is in the plan today, and we are basically starting this new 401(a) plan for new employees, and contributing an amount -- 6 percent of salary -- into the new 401(a) plan. So we are basically coming up with a two-tier system.

SENATOR SCUTARI: And that can go up, though, can it not, depending upon the amount of matching dollars that an employee wants to provide into that plan?

MR. WEDEL: Well, there is a separate 401(k) plan that the employee can contribute to. And that does have some matching dollars from New Jersey TRANSIT. The 401(a) plan, by definition, is just the employee -- just the employer contribution, so it will be fixed at 6 percent.

SENATOR SCUTARI: And then the 401(k) plan would be up to 3 percent of the salary of the employee and a match of 50 percent -- or up to 6 percent, rather, with a match of up to 50 percent?

MR. WEDEL: It's 6 percent from the employee, 50 percent match by the company, up to 3 percent. That's correct.

SENATOR SCUTARI: So it would be a maximum contribution by the employer of 9 percent, if someone took full advantage of it?

MR. WEDEL: Yes. It would be 9 percent from the employer, and another 6 percent from the employee, for a total of 15 percent if you took full advantage. Correct.

SENATOR SCUTARI: As opposed to the Alternative Benefits Plan, which would be a straight 5 percent and 8 percent match, based upon what I was just told earlier.

So your system, essentially, has less predictability in terms of the cost than the other plan, does it not?

MR. WEDEL: Clearly. Clearly, because our contributions, clearly, are determined based upon actuarial valuations. And as you can see, our costs have increased substantially in the last few years.

SENATOR SCUTARI: Thank you very much.

ASSEMBLYWOMAN POU: Thank you.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: That increase that you gave a couple of years ago -- it went from 1.75 percent to 2 percent.

MR. WEDEL: Yes.

ASSEMBLYMAN GIBLIN: That works out to a 14 percent increase you gave to the employees, right? Off the top of my head.

MR. WEDEL: Yes. And the way that works, that is both for the bus union employees, as well as the non-agreement employees. Traditionally, what has happened in negotiations -- to the extent that the bus union negotiates increases in the pension plan -- that ultimately those same -- that same formula and the same plan -- that is then offered to the non-agreement management staff, to ensure that we can promote from within the union staff and promote them into management.

ASSEMBLYMAN GIBLIN: Okay. PERS gave a 9 percent increase going back five years ago when they changed the formula. Did actuaries advise you of the long-range implications of that increase?

MR. WEDEL: Yes.

ASSEMBLYMAN GIBLIN: So you knew, going into it, that it was going to be 14 percent more?

MR. WEDEL: We did. Again, it was part of the labor negotiations and part of the overall settlement for the labor contract with the bus unions.

ASSEMBLYMAN GIBLIN: I assume, because it is -- you are kind of an autonomous agency -- there were no holidays, as far as payments were concerned, to any of these plans, right?

MR. WEDEL: That's correct. We have made every payment in accordance with the actuarial calculation of the contribution.

ASSEMBLYMAN GIBLIN: That $91 million you talked about as far as shortfall, what's -- where is your unfunded liability, percentage-wise? Is it like the--

MR. WEDEL: It's probably about 12 percent or 13 percent.

ASSEMBLYMAN GIBLIN: So you are up as high as 88 percent, as compared to the PERS being about 83 percent and the teachers being about 80.8 percent -- so you are at 8 percent higher?

MR. WEDEL: Right.

ASSEMBLYMAN GIBLIN: Okay.

Thank you.

ASSEMBLYWOMAN POU: Thank you, Assemblyman.

I just have a question -- a follow-up question as a point of clarification.

In your comments moments ago, you mentioned, with regards to the improved pension benefits for active employees -- and then you use the formula increase from 1.75 percent to 2 percent. Can you tell me what was that based on? Is that based on their salary? Is it based-- How is that calculated?

MR. WEDEL: It's basically the formula for the existing defined benefit plan for both the bus agreement people as well as the non-agreement. And the way it works is, you take that percentage, times the number of years of service, times your final average salary. And that would be your annual pension.

ASSEMBLYWOMAN POU: So the decision to go to 2 percent was based on what?

MR. WEDEL: Labor negotiations with the bus labor unions.

ASSEMBLYWOMAN POU: Oh, okay. Fine.

Let me just also quickly go back to -- the non-agreement employees that you mentioned were given the option to transfer into the newly -- the new defined compensation plan -- contribution plan, I'm sorry. How many of the employees actually transferred into the new contribution plan?

MR. WEDEL: They are going to be given the option. The actuary--

ASSEMBLYWOMAN POU: So it's not currently in effect just yet?

MR. WEDEL: The actuary is in the process right-- The new plan went into effect July 1 of this year. So any new employees who came in are in the new 401(a) plan.

ASSEMBLYWOMAN POU: And how many are there?

MR. WEDEL: It's just a handful, because--

ASSEMBLYWOMAN POU: Okay.

MR. WEDEL: --we don't have much turnover. We have about 1,700 employees -- non-agreement employees -- and so far, it's just a handful.

Going forward, though, we have offered that transfer to all of the existing employees, and the actuary is currently working on the calculation to calculate what the accrued benefit is in the current plan. And then if an employee opts to transfer into the new 401(a) plan, we will take that much money out of the defined benefit plan, move it to the defined contribution plan, and that will be the start -- the starting balance in the new plan.

ASSEMBLYWOMAN POU: Does New Jersey TRANSIT have any idea in terms of what their anticipated transfer will be -- of their employees? Has there been any survey or indication given to New Jersey TRANSIT?

MR. WEDEL: No formal survey, but what we would expect, based upon the benefits, is that many of the new employees -- who are recent hires, let's say at least within the last five years -- would probably strongly consider making that move, because they won't be vested in the current plan until they are here 10 years. If they move over to the 401(a), they will be vested after three years. So they would be immediately vested.

ASSEMBLYWOMAN POU: So is it-- Would it be correct to say that, in essence, do we-- Well, let me ask the question rather than make the assumption.

Do we have a natural two-tier system, or is that just for anyone opting to enter the -- what do you call it -- the new defined contribution plan?

MR. WEDEL: Contribution plan. Well, we have a two-tier system. Obviously, anybody who is -- any non-agreement employee who was on the property as of June 30 of this year is in the current defined benefit plan. Any new employee goes into the 401(a).

ASSEMBLYWOMAN POU: Is it optional, though, or--

MR. WEDEL: It's not optional--

ASSEMBLYWOMAN POU: It isn't, okay.

MR. WEDEL: It's not optional for a new employee to go into the 401(a). It's optional for existing employees. If they want to opt out of the defined benefit plan, they can go into the 401(a).

ASSEMBLYWOMAN POU: Okay. Thank you.

Any questions?

Senator Rice.

SENATOR RICE: Could you elaborate a little bit more on the benefits at retirement? Under this plan, the employee is going to make a decision on what is in the plan, on how to invest it?

MR. WEDEL: Right.

SENATOR RICE: And so is that like going to Atlantic City, figuring out whether you go to the tables or whether you go to the machines, and then-- (laughter)

SENATOR GORMLEY: It's quite a week to go to Atlantic City, believe me. (laughter)

SENATOR RICE: How does--

MR. WEDEL: These employees--

SENATOR RICE: Are we increasing risks on losses at the end, towards retirement?

MR. WEDEL: Sure. I mean, clearly there is an increased risk to the employee because the employee now has control and is able to invest the monies the way they see fit, based on their risk tolerance. But most of these employees, especially all the current non-agreement employees, are already in a 401(k), so they understand there are 15 different options -- from a very conservative investment to a very aggressive investment and anything in between there.

And what you find is that people invest based upon their own risk tolerances, and we would expect, going forward, anybody in the 401(a) plan would do the same.

SENATOR RICE: Okay.

ASSEMBLYWOMAN POU: Thank you.

I'm sorry, just real quickly-- Earlier when we talked about, in terms of the number -- the two-tiered system. Does New Jersey TRANSIT have any idea in terms of what its savings will be based on these two new plans in, let's say, the next five years, the next ten years? Has there been any information provided to you or have you looked at anything that will provide us with some kind of financial outlook?

MR. WEDEL: It's very difficult to do, because it is based upon certain assumptions. Depending on what assumptions you would make on the earnings, on the defined benefits plan, on the improvements in the plan going forward, on the participants in the plan -- will determine what the contributions are going to be in the future. So you can come up with different scenarios, but it is very, very difficult to identify "cost savings."

What we have tried to do here is say, by moving people to the 401(a), it is going to be more predictable and more controllable, and from a budget perspective we'll know what we have to contribute. And we will know what it is in the long-term going forward, rather than being subject to the fluctuations in the stock market, for example.

ASSEMBLYWOMAN POU: Well, that was-- I guess that's my point. In your report, you made reference that you have 10,200 participants currently in your pension benefit plan, of which -- only as of June 2006 do you have the other new pension contribution plan, which will give you a different number of employees.

So based on just what-- You know what your total number is to begin with. You know what your new plan will have. You have some indication as to the likelihood of those additional employees remaining, so you are able to provide some kind of anticipated estimate of what that movement will be in terms of the actual cost savings.

MR. WEDEL: Not exactly, because going forward-- If you go back to 2001, when we were paying $27 million -- if you would have told me back then that the cost would have been $60 million in 2006, I would have been very surprised. But it was a function of the stock market and the investment results for the portfolio; it was a reflection on the increased longevity of our employees through a new, more current mortality table. People are living longer, so we had to provide more. And then the increase in the formula from 1.75 percent to 2 percent obviously impacted it, but that is something that you can calculate. And then there were some increased benefits to some retirees that we hadn't anticipated back then.

So going forward, the issue is how many more of those uncertainties will impact the costs over the next five years. And obviously, you can make assumptions, but I have to tell you, based on what I would have assumed in 2001, would have been a lot less come 2006 than what we are paying today.

ASSEMBLYWOMAN POU: Thank you. Thank you very much.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Just one final question. You are setting up your own plan, as far as a defined contribution.

This is really a question to Director Beaver. Why can't we work within the existing structure of the Alternative Benefit Program? I know now it's for professors and things like that, and it's at the 8 percent rate -- and I know the number is different here with the 6 percent -- but to have another plan-- And I know this is an autonomous agency, but it seems to me that we should try to-- Can we work with the existing structure?

MR. WEDEL: Well, from the beginning New Jersey TRANSIT has set up its own pension plans, both defined benefit and defined contribution plans, based upon the needs of its workforce.

ASSEMBLYMAN GIBLIN: No, I understand it. But I'm looking at the issue that if you're looking to have an alternative, there might be other autonomous agencies -- Passaic Valley Sewerage, Delaware River Port Authority, people like that -- down the road that might want to look at this, and they're going to have one, you're going to have one, Passaic Valley Sewerage is going to have one.

Why not have it all under the umbrella of the State, and realize that the teachers put in 8 percent -- or the university people -- but in your case, 6 percent? Is that feasible, Director Beaver?

DIRECTOR BEAVER: I guess-- It is a statutory issue. I mean, certainly, that is how the pension system eventually developed -- the PERS and the Teachers' system. It was a consolidation of a bunch of independent systems. There were, as I understand it -- created the statewide system because of financial difficulties with the individual systems.

The ABP is set in statute. It certainly-- On a statutory basis, it was amended to allow other organizations to participate or to create a second tier of benefits for State employees. It's certainly doable.

ASSEMBLYMAN GIBLIN: Because none of these existing people, in their right mind, at New Jersey TRANSIT are going to switch over to a defined contribution if they have a pension benefit going. Because, first of all, the numbers are going to be so small in that new fund -- you know how a lot of these funds work-- The larger the investment, long term, hedge funds, real estate investment trusts -- I mean, you can't do it with a small, little pot. And if it is going to be self-directed, there is not going to be any incentive for them to even contemplate switching over. They would have to be out of their minds.

That is why I am saying about going into the State plan, where you would have some real numbers. Okay?

DIRECTOR BEAVER: It's something to be considered.

ASSEMBLYWOMAN POU: Thank you so very much.

I don't see any other members having any additional questions.

I would like to thank all of our speakers here today. I thank the members of the public for your attendance.

Meeting adjourned.

(MEETING CONCLUDED)