

Governor Christie Calls for Fairness In Pension and Health Benefits

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Tags:



Governor Christie is calling for bringing fairness to New Jersey's pension and health benefits systems as he formally endorsed the proposals of the nonpartisan New Jersey Pension and Health Benefits Study Commission.

A Roadmap for Reform:

Recognizing the gravity of the pension and health benefits problem and its impact on New Jersey's ability to fund critical priorities and long-term economic health, the New Jersey Education Association (NJEA) has come to the table over the past few months and has been working with the Commission to map out a solution. The NJEA has agreed to an initial roadmap and will continue to work cooperatively with the Commission and administration to enact fundamental reform.

Among the reforms the NJEA has agreed to pursue:

Freeze Of Existing Pension Plans And Replacement With New Retirement Plans. "The existing plan would be frozen and it would be replaced by a new plan. It is anticipated that the annual contributions to the new plan on behalf of active school employees will be paid for by the local school districts employing them. It is the intention that the beneficiaries of the existing plan will receive what they are entitled to according to the terms of that plan." (NJ Pension and Health Benefits Study Commission & New Jersey Education Association, Joint Memo, "Roadmap To Establish Direction For Solving Nj Pension And Health Benefits Issues," 2/17/15)

Transfer Of Control Of Pension Funds To The NJEA. "Both the existing plan and the new plan would be transferred to a Trust created by NJEA. The State would be obligated to make periodic contributions within each fiscal year to the Trust to retire the unfunded liability of the existing plan over an extended period of time like 40 years." (NJ Pension and Health Benefits Study Commission & New Jersey Education Association, Joint Memo, "Roadmap To Establish Direction For Solving Nj Pension And Health Benefits Issues," 2/17/15)

A Constitutional Amendment Guaranteeing Consistent State Funding. "The State's payment obligations would be ensured pursuant to a Constitutional Amendment that is intended to be the subject of a Public Referendum to be voted upon in November 2015, pursuant to a specified payment schedule (with the State having the right to pre-pay all or part of its obligation) until the liability were fully retired." (NJ Pension and Health Benefits Study Commission & New Jersey Education Association, Joint Memo, "Roadmap To Establish Direction For Solving Nj Pension And Health Benefits Issues," 2/17/15)

Work Collaboratively With The State To Pursue Meaningful Savings In Health Care Costs. "Somehow, the State needs to utilize savings from health care to offset a portion of the payments necessary for the permanent pension solution. It is the intention that the Plan Design Committee of the School Employees' Health Benefits Program consider elements intended to reduce costs, to a level that is comparable to the cost of private-sector employee benefits, while preserving quality of care." (NJ Pension and Health Benefits Study Commission & New Jersey Education Association, Joint Memo, "Roadmap To Establish Direction For Solving Nj Pension And Health Benefits Issues," 2/17/15)

Though there is still much work to be done, this initial roadmap will help to set out the steps and proposals necessary to solving long-term problems with the pension and health benefit systems.

The Governor Is Endorsing The Full Reform Proposals Of The Study Commission:

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In addition to the roadmap agreed upon with the NJEA, Governor Christie has endorsed and is presenting to the Legislature the full reform proposals of the Study Commission. If enacted, the plan will strengthen the solvency of the pension system, while bringing fairness to the state's health benefits system.

Align Public Employee Retirement And Health Benefits With Private Sector Levels: New Jersey's public-sector health benefits are the third-costliest in the nation. State-sponsored health plans have both much higher actuarial values as well as much lower employee contribution levels than typical plans provided by larger private-sector employers. The Commission recommends setting benchmarks for the actuarial values and contribution rates that correspond to private sector levels and creating new health plan options that meet those spending targets.

By aligning benefits with the equivalent of a private-sector "Gold" plan under the Affordable Care Act, the state and municipalities can achieve substantial cost savings. These savings could then be used in securing pension funding.

Adopt A Unified State & Local Approach For Sustainable Pension And Health Benefits: Annual contributions to the new pension and health benefits plan for active school employees will be paid for by the local school districts employing them. The adoption of this system would permit, in a manner cost-neutral to local government, use of benefits savings at the local level to help fund the pension gap.

The Time For Reform Is Now:

Without reform, pensions and health benefits will continue to eat away at New Jersey's ability to fund key priorities.

Absent Reform, Pension And Health Benefits Costs Would Represent 23% Of Spending In 2016. "Absent reform, in 2016 the State would be required to dedicate \$4.326 billion for pension funding and \$3.728 billion for health benefits to fully fund its existing obligations. This \$8.054 billion total would consume an unsustainable 23% of a \$35.5 billion budget - and a greater percentage of a lower budget." (New Jersey Pension and Health Benefit Study Commission, Final Report, 2/24/15; page 5)

Since Fiscal Year 2011 Through This Coming Budget, New Jersey Will Have Paid Over \$40 Billion Dollars In Pension, Health And Debt Service Costs. That compares to an average budget of under \$32 billion. (New Jersey Department Of The Treasury, Office Of Management And Budget, Accessed: 2/23/15)

Health Costs Currently Consume 8% Of The Budget, By 2024 It Will Be 14%. "In FY 2014, those expenditures were roughly \$2.8 billion after offsetting for employee contributions, or just over 8% of the budget. By 2024, unless cost containment is effected, health care benefits are projected to consume 14% of the budget." (New Jersey Pension and Health Benefit Study Commission, Status Report, 9/25/14; page 7)

Closing The Funding Gap would require increasing the sales tax to 10% or increasing the income tax by 29%. "There are no plausible solutions for closing the pension funding gap without comprehensive benefits reform. As shown in Tables V and VI, raising an additional \$3.6 billion annually would require increasing the sales tax to 10% or increasing the income tax by 29%." (New Jersey Pension and Health Benefit Study Commission, Final Report, 2/24/15; page 8)

BUILDING ON BIPARTISAN PENSION AND HEALTH BENEFITS REFORM

Since taking office, Governor Christie has worked to bring greater solvency to New Jersey's pension and health benefits systems:

Historic, Bipartisan Reforms To New Jersey's Pension System: In June 2011, Governor Chris Christie signed into law landmark pension and health benefit reform, marking months of hard work, negotiation, compromise and ultimately bipartisan support. The bipartisan pension reforms of 2011 are expected to save New Jersey's state and local governments **\$122 billion** in the 30 years from 2011 to 2041. It accomplished this with tough, responsible choices that served as a national model for bipartisanship and real reform including raising the ages for early and regular retirement and increasing employee contributions.

More Pension Contributions Than Any NJ Governor In History: In Fiscal Year 2016, Governor Christie will make the single largest payment to the New Jersey pension system in state history. Through FY '16, Governor Christie will have contributed more to the pension system than any other governor in history - nearly **\$4.2 billion** versus a total of \$3.41 billion contributed by all Governors between 1995 and 2010.

Responsible Management Of The Pension Fund: Through responsible management led by the Christie Administration, the New Jersey Pension Fund produced a positive return on its investments of 16.9 percent for Fiscal Year 2014. This marks the fourth consecutive year the Fund outperformed its market benchmark and the second year in a row that the fund has produced double-digit returns. The pension fund's strong performance doubled the assumed rate of return of 7.9 percent, generating \$7 billion more in gains than projected for the fiscal year. Since June 30, 2010, the fund has experienced gains and income through investments totaling more than **\$35 billion**.

A Smaller, More Efficient State Government: Governor Christie's responsible management has resulted in a more efficient and streamlined State government. There are more than **8,500** fewer State government employees than when the Governor took office.

A Constitutional Amendment On Judicial Pensions: Following a ruling by the New Jersey Supreme Court exempting current judges from the increased contributions under pension reform, Governor Christie supported a constitutional amendment to ensure that the judges are playing by the same rules as other public employees and not sticking taxpayers with the bill for an unaffordable and unbalanced retirement for judges.

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