P U B L I C ~~M E E T I N G~~ Hearing

before

ASSEMBLY STATE GOVERNMENT COMMITTEE

ASSEMBLY BILL NO. 3421 AND SENATE BILL NO. 2602 (2R)

(Increases special retirement allowance in PFRS; restricts PFRS membership; assumes funding of pension adjustments; amends other provisions of PFRS statute)

February 27, 1989
Room 368
State House Annex
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Robert J. Martin, Chairman
Assemblywoman Marion Crecco, Vice Chairman
Assemblyman William E. Schluter
Assemblyman Anthony J. "Skip" Cimino
Assemblyman Joseph Charles, Jr.

ALSO PRESENT:

Assemblyman William J. Pascrell, Jr.
District 35

Donald S. Margeson
Office of Legislative Services
Aide, Assembly State Government Committee

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

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ROBERT J. MARTIN
CHAIRMAN
MARION CRECCO
VICE-CHAIRMAN
WILLIAM E. SCHLUTER
JOSEPH CHARLES, JR.
ANTHONY J. CIMINO

New Jersey State Legislature
ASSEMBLY STATE GOVERNMENT COMMITTEE
STATE HOUSE ANNEX, CN-068
TRENTON, NEW JERSEY 08625
(609) 292-9106

February 17, 1989

TO: MEMBERS OF THE COMMITTEE

FROM: ASSEMBLYMAN ROBERT J. MARTIN, CHAIRMAN

SUBJECT: COMMITTEE MEETING - FEBRUARY 27, 1989

The Assembly State Government Committee will meet on **Monday, February 27, 1989** at **10:00 A.M.** in **Room 368** of the **State House Annex** in Trenton, to consider the following legislation:

A-43 Albohn	Provides for two shifts of district election board workers at the polls on election days.
A-2826 Kline	Provides a schedule of the percent of retainage on partial payments on State and local government construction contracts in excess of $100,000.
A-3294 Farragher, Ogden	Supplemental appropriation of $150,000 for Arts Council grant to the New Jersey Arts Foundation for student scholarships.
A-3421 Pascrell, Cimino	Increases special retirement allowance in PFRS; restricts PFRS membership; assumes funding of pension adjustments; amends other provisions of PFRS statute.
A-3440 Haytaian	Authorizes sale of surplus State personal property to units of local government.
A-4049 Brown	Appropriates $250,000 to St. James A.M.E. Church in Newark.
A-4111 Littell, Brown	Creates State Capitol Joint Management Commission.
S-2602 (2R) Russo	Increases special retirement allowance in PFRS; restricts PFRS membership; assumes funding of pension justments; amends other provisions of PFRS statute.

Please note: A transcript will be taken of the Committee's discussion of A-3421 and S-2602 (2R). Anyone wishing to testify on this legislation should contact Donald S. Margeson, Committee Aide, at (609) 292-9106.

ASSEMBLY, No. 3421

STATE OF NEW JERSEY

INTRODUCED JUNE 20, 1988

By Assemblymen PASCRELL, CIMINO, Patero,
Foy and Girgenti

AN ACT concerning the membership and the retirement of certain members of the Police and Firemen's Retirement System, amending and supplementing P.L. 1944, c. 255, amending P.L. 1964, c. 241 and P.L. 1971, c. 175, and repealing section 3 of P.L. 1982, c. 198.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. Section 1 of P.L. 1944, c. 255 (C. 43:16A-1) is amended to read as follows:

1. As used in this act:

(1) "Retirement system" shall mean the Police and Firemen's Retirement System of New Jersey as defined in section 2 of this act.

(2) "Policeman or fireman" shall mean any permanent and full-time active uniformed employee, and any active permanent and full-time employee who is a detective, lineman, fire alarm operator, or inspector of combustibles of any police or fire department or any employee of a police or fire department who was a member of the retirement system for a period of 15 years prior to his transfer to a position within the department not otherwise covered by the retirement system or any officer or employee serving in the title of assistant superintendent I, assistant superintendent II, assistant superintendent III, superintendent I, superintendent II, superintendent III or administrator, prison complex within the Department of Corrections who, prior to appointment to any of those titles, was a member of the retirement system. It shall also mean any permanent, active and full-time firefighter or officer employee of the State of New Jersey, or any political subdivision thereof, with police powers and holding one of the following titles: motor vehicles officer, motor vehicles sergeant, motor vehicles lieutenant, motor vehicles captain, assistant chief, bureau of enforcement, and chief, bureau of enforcement in the Division of

EXPLANATION--Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined <u>thus</u> is new matter.

Motor Vehicles, highway patrol officer, sergeant highway patrol bureau, lieutenant highway patrol bureau, captain highway patrol bureau, assistant chief highway patrol bureau, and chief highway patrol bureau in the Division of State Police, alcoholic beverage control investigator, alcoholic beverage control inspector, assistant deputy director, bureau of enforcement, and deputy director, bureau of enforcement in the Division of Alcoholic Beverage Control, inspector recruit alcoholic beverage control, inspector alcoholic beverage control, senior inspector alcoholic beverage control, principal inspector alcoholic beverage control, and supervising inspector alcoholic beverage control in the Division of State Police, conservation officer I, II, III, supervising conservation officer, and chief, bureau of law enforcement in the Division of Fish, Game and Wildlife, ranger trainee, ranger, chief ranger I and chief ranger II in the State Park Service, field section fire warden, chief, Bureau of Forest Fire Management, State forest fire warden, supervising forester (fire), principal forester (fire), senior forester (fire), assistant forester (fire), supervising forest fire warden, division forest fire warden, assistant division forest fire warden, and section forest fire warden in the Bureau of Forest Fire Management, Department of Environmental Protection, marine police officer, senior marine police officer, and principal marine police officer in the Division of State Police, marine patrolman, senior marine patrolman, principal marine patrolman, and chief, bureau of marine law enforcement, State fire marshal, deputy State fire marshal, and inspector fire safety, Department of Law and Public Safety, institution fire chief and assistant institution fire chief, Department of Human Services, correction officer, senior correction officer, correction officer sergeant, correction officer lieutenant, correction officer captain, investigator, senior investigator, principal investigator, assistant chief investigator, chief investigator and director of custody operations I, II, III in the Department of Corrections, medical security officer, assistant supervising medical security officer, and supervising medical security officer in the Department of Human Services, county detective, lieutenant of county detectives, captain of county detectives, deputy chief of county detectives, chief of county detectives, supervising auditor-investigator, auditor-investigator, electronics specialist, traffic safety coordinator-investigator, supervisor of electronics and investigations, and county investigator in the offices of the county prosecutors, county sheriff, sheriff's officer, sergeant sheriff's officer, lieutenant sheriff's officer, captain sheriff's officer, chief sheriff's officer, and sheriff's investigator in the offices of the county sheriffs, county correction officer, county correction sergeant, county correction lieutenant, county correction captain, and county deputy warden in the several county jails, industrial trade instructor and identification officer in a county of the first class having a population of more than 850,000 inhabitants, cottage officer, head cottage officer, interstate escort officer, juvenile officer, head juvenile officer, assistant supervising juvenile officer, and supervising juvenile officer, chief investigator, assistant chief investigator, senior investigator and investigator in a county welfare agency in a county of the first class, if the county adopts an ordinance or resolution, as appropriate, pursuant to subsection a. of section 2 of P.L. 1985, c. 221 (C. 43:16A-62.3), police officer capitol police and senior police officer capitol police in the Division of State Police, patrolman capitol police, patrolman institutions, sergeant patrolman institutions, and supervising patrolman institutions and patrolman or other police officer of the Board of Commissioners of the Palisades Interstate Park appointed pursuant to R.S. 32:14-21.

<u>After the effective date of this 1988 amendatory and supplementary act, however, "policeman or fireman" shall mean any permanent and full-time active uniformed employee of a police or fire department, and any active permanent and full-time employee who is a detective, lineman, fire alarm operator, or inspector of combustibles of a police or fire department, appointed or employed subsequent to that effective date who has received Police Training Commission certification and, in the case of an employee of a police department, who has full police powers, has received firearms training, and has firearms carrying privileges; and shall also mean any person who is a member of the retirement system on that effective date. Any employees of a police or fire department who are employed after that effective date and who do not meet those</u>

qualifications shall not be members of the retirement system. In no instance shall an employee of a police or fire department who was employed prior to the effective date of P.L. 1986, c. 112 and who shall assume a new title by merit of promotion or a change in title of position be denied continued membership in the Police and Firemen's Retirement System.

(3) "Member" shall mean any policeman or fireman included in the membership of the retirement system as provided in section 3 of this act.

(4) "Board of trustees" or "board" shall mean the board provided for in section 13 of this act.

(5) "Medical board" shall mean the board of physicians provided for in section 13 of this act.

(6) "Employer" shall mean the State of New Jersey, the county, municipality or political subdivision thereof which pays the particular policeman or fireman.

(7) "Service" shall mean service as a policeman or fireman paid for by an employer.

(8) "Creditable service" shall mean service rendered for which credit is allowed as provided under section 4 of this act.

(9) "Regular interest" shall mean interest as determined annually by the State Treasurer after consultation with the Directors of the Divisions of Investment and Pensions and the actuary of the system. It shall bear a reasonable relationship to the percentage rate of earnings on investments but shall not exceed 105% of such percentage rate.

(10) "Aggregate contributions" shall mean the sum of all the amounts, deducted from the compensation of a member or contributed by him or on his behalf, standing to the credit of his individual account in the annuity savings fund.

(11) "Annuity" shall mean payments for life derived from the aggregate contributions of a member.

(12) "Pension" shall mean payments for life derived from contributions by the employer.

(13) "Retirement allowance" shall mean the pension plus the annuity.

(14) "Earnable compensation" shall mean the full rate of the salary that would be payable to an employee if he worked the full normal working time for his position. In cases where salary

includes maintenance, the retirement system shall fix the value of that part of the salary not paid in money which shall be considered under this act.

(15) "Average final compensation" shall mean the average annual salary upon which contributions are made for the three years of creditable service immediately preceding his retirement or death, or it shall mean the average annual salary for which contributions are made during any three fiscal years of his or her membership providing the largest possible benefit to the member or his beneficiary.

(16) "Retirement" shall mean the termination of the member's active service with a retirement allowance granted and paid under the provisions of this act.

(17) "Annuity reserve" shall mean the present value of all payments to be made on account of any annuity or benefit in lieu of any annuity computed upon the basis of such mortality tables recommended by the actuary as shall be adopted by the board of trustees, and regular interest.

(18) "Pension reserve" shall mean the present value of all payments to be made on account of any pension or benefit in lieu of any pension computed upon the basis of such mortality tables recommended by the actuary as shall be adopted by the board of trustees, and regular interest.

(19) "Actuarial equivalent" shall mean a benefit of equal value when computed upon the basis of such mortality tables recommended by the actuary as shall be adopted by the board of trustees, and regular interest.

(20) "Beneficiary" shall mean any person receiving a retirement allowance or other benefit as provided by this act.

(21) "Child" shall mean a deceased member's or retirant's unmarried child (a) under the age of 18, or (b) 18 years of age or older and enrolled in a secondary school, or (c) under the age of 24 and enrolled in a degree program in an institution of higher education for at least 12 credit hours in each semester, provided that the member died in active service as a result of an accident met in the actual performance of duty at some definite time and place, and the death was not the result of the member's willful misconduct, or (d) of any age who, at the time of the member's or retirant's death, is disabled because of mental retardation or

physical incapacity, is unable to do any substantial, gainful work because of the impairment and his impairment has lasted or can be expected to last for a continuous period of not less than 12 months, as affirmed by the medical board.

(22) "Parent" shall mean the parent of a member who was receiving at least one-half of his support from the member in the 12-month period immediately preceding the member's death or the accident which was the direct cause of the member's death. The dependency of such a parent will be considered terminated by marriage of the parent subsequent to the death of the member.

(23) "Widower" shall mean the man to whom a member or retirant was married at least two years before the date of her death and to whom she continued to be married until the date of her death and who was receiving at least one-half of his support from the member or retirant in the 12-month period immediately preceding the member's or retirant's death or the accident which was the direct cause of the member's death. The dependency of such a widower will be considered terminated by marriage of the widower subsequent to the death of the ember or retirant. In the event of the payment of an accidental death benefit, the two-year qualification shall be waived.

(24) "Widow" shall mean the woman to whom a member or retirant was married at least two years before the date of his death and to whom he continued to be married until the date of his death and who has not remarried. In the event of the payment of an accidental death benefit, the two-year qualification shall be waived.

(25) "Fiscal year" shall mean any year commencing with July 1, and ending with June 30, next following.

(26) "Compensation" shall mean the base salary, for services as a member as defined in this act, which is in accordance with established salary policies of the member's employer for all employees in the same position but shall not include individual salary adjustments which are granted primarily in anticipation of the member's retirement or additional remuneration for performing temporary duties beyond the regular workday.

(27) "Department" shall mean any police or fire department of a municipality or a fire department of a fire district located in a township or a county police or park police department or the

appropriate department of the State or instrumentality thereof.

(28) "Final compensation" means the compensation received by the member in the last 12 months of creditable service preceding his retirement.

(cf: P.L. 1986, c. 165, s. 1)

2. Section 6 of P.L. 1944, c. 255 (C. 43:16A-6) is amended to read as follows:

6. (1) Upon the written application by a member in service, by one acting in his behalf or by his employer, any member, under 55 years of age, who has had 5 or more years of creditable service may be retired [, not less than 1 month next following the date of filing such application,] on an ordinary disability retirement allowance; provided, that the medical board, after a medical examination of such member, shall certify that such member is mentally or physically incapacitated for the performance of his usual duty and of any other available duty in the department which his employer is willing to assign to him and that such incapacity is likely to be permanent and to such an extent that he should be retired.

(2) Upon retirement for ordinary disability, a member shall receive an ordinary disability retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his aggregate contributions and

(b) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 1 1/2 % of average final compensation multiplied by his number of years of creditable service but in no event shall the total allowance be less than 40% of the member's average final compensation.

(3) Upon the receipt of proper proofs of the death of a member who has retired on an ordinary disability retirement allowance, there shall be paid to such member's beneficiary, an amount equal to 3 1/2 times the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service; provided, however, that if such death shall occur after the member shall have attained 55 years of age the amount payable shall equal 1/2 of such compensation instead of 3 1/2 times such compensation.

(cf: P.L. 1971, c. 175, s. 3)

3. Section 7 of P.L. 1944, c. 255 (C. 43:16A-7) is amended to read as follows:

7. (1) Upon the written application by a member in service, by one acting in his behalf or by his employer any member may be retired [, not less than 1 month next following the date of filing such application,] on an accidental disability retirement allowance; provided, that the medical board, after a medical examination of such member, shall certify that the member is permanently and totally disabled as a direct result of a traumatic event occurring during and as a result of the performance of his regular or assigned duties and that such disability was not the result of the member's willful negligence and that such member is mentally or physically incapacitated for the performance of his usual duty and of any other available duty in the department which his employer is willing to assign to him. The application to accomplish such retirement must be filed within 5 years of the original traumatic event, but the board of trustees may consider an application filed after the 5-year period if it can be factually demonstrated to the satisfaction of the board of trustees that the disability is due to the accident and the filing was not accomplished within the 5-year period due to a delayed manifestation of the disability or to other circumstances beyond the control of the member.

(2) Upon retirement for accidental disability, a member shall receive an accidental disability retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his aggregate contributions and

(b) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 2/3 of the member's actual annual compensation for which contributions were being made at the time of the occurrence of the accident.

(3) Upon receipt of proper proofs of the death of a member who has retired on accidental disability retirement allowance, there shall be paid to such member's beneficiary, an amount equal to 3 1/2 times the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service; provided, however, that if such death

shall occur after the member shall have attained 55 years of age the amount payable shall equal 1/2 of such compensation instead of 3 1/2 times such compensation.

(4) Permanent and total disability resulting from a cardiovascular, pulmonary or musculo-skeletal condition which was not a direct result of a traumatic event occurring in the performance of duty shall be deemed an ordinary disability.

(cf: P.L. 1971, c. 175, s. 4)

4. Section 16 of P.L. 1964, c. 241 (C. 43:16A-11.1) is amended to read as follows:

16. Should a member resign after having established 25 years of creditable service, he may elect "special retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in section 11, a retirement allowance which shall consist of:

(1) An annuity which shall be the actuarial equivalent of his aggregate contributions, and

(2) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [60%] 65% of his final compensation, plus 1% of his final compensation multiplied by the number of years of creditable service over 25 but not over 30; provided, however, that any member who has earned, prior to July 1, 1979, more than 30 years of creditable service, shall receive an additional 1% of his final compensation for each year of his creditable service over 30.

The board of trustees shall retire him at the time specified or at such other time within 1 month after the date so specified as the board finds advisable.

Upon the receipt of proper proofs of the death of such a retired member, there shall be paid to his beneficiary an amount equal to one-half of the final compensation received by the member.

(cf: P.L. 1982, c. 198, s. 2)

5. Section 15 of P.L. 1944, c. 255 (C. 43:16A-15) is amended to read as follows:

15. (1) The contributions required for the support of the retirement system shall be made by members and their employers.

(2) [Upon the basis of such tables recommended by the actuary as the board shall adopt and regular interest, the actuary of the retirement system shall determine for each age at entrance into the system the percentage of compensation of the member entering at such age, exclusive of the additional contribution prescribed by subsections (3)(c) and (3)(d) of this section, which, if deducted from each payment of his prospective earnable compensation throughout active service, is computed to be sufficient to provide for all benefits on account of his membership.]

The uniform percentage contribution rate for members shall be 8.5% of compensation.

(3) [(a) The percentage contribution rate of each member, exclusive of the additional contribution prescribed by subsections (3)(c) and (3)(d) of this section, shall be fixed according to his age at entrance into membership and shall be one-half of the total percentage contribution rate calculated for such age to be required to provide all benefits except the pensions upon accidental disability and the benefits payable upon death.

(b) Notwithstanding the provisions of subsection (3)(a) of this section, the percentage contribution rates for members of the retirement system exclusive of the additional contribution prescribed by subsections (3)(c) and (3)(d) of this section, shall be fixed at the contribution rates in effect as of July 1, 1967.

(c) Effective July 1, 1968, all proportions of compensation are increased by an additional 1% of compensation which is subject to deductions from the compensation of members or contributions made on their behalf by their employers in lieu of such deductions.

(d) Upon the effective date of this 1979 amendatory and supplementary act, all proportions of compensation are increased by an additional 1% of compensation which is subject to deductions from the compensation of members or contributions made on their behalf by their employers in lieu of such deductions.] (Deleted by amendment, P.L.   , c.   .)

(4) [Each employer shall make a contribution equal to that made by each member in its employ and in addition shall make a contribution equal to the percentage of the compensation of each such member certified by the retirement system to be required to provide the cost of accidental disability pensions and any death

benefits on his account. Notwithstanding this provision, the retirement system shall certify an average and uniform rate for payments by all employers, which shall be set on the basis of the annual actuarial valuations to be sufficient to provide with previous contributions of employers all benefits for which employers are responsible. This shall be known as the "normal contribution."]

Each employer shall make contributions equal to the percentage of compensation of members in its employ as certified by the board of trustees based on annual actuarial valuations. The percentage rate of contribution payable by employers shall be determined initially on the basis of the entry age normal cost method. This shall be known as the "normal contribution."

(5) [In addition each employer shall make such contributions, if any, as is certified by the retirement system to be required to provide for accrued liability arising out of all prior service granted to members chargeable to such employer.] (Deleted by amendment, P.L. , c. .)

(6) The percentage rates of contribution payable by [future members and all] employers pursuant to subsection (4) of this section shall be subject to adjustment from time to time by the board of trustees with the advice of the actuary on the basis of annual actuarial valuations and experience investigations as provided under section 13, so that the value of future contributions of members and employers, when taken with present assets, shall be equal to the value of prospective benefit payments.

(7) [The retirement system shall certify to the chief fiscal officer of each employer the percentage of salary payable by each member and by the employer in behalf of his employee members. The employer shall cause to be deducted from the salary of each member the percentage of earnable compensation of each member. The retirement system shall certify to each employer the proportion of each member's compensation to be deducted, and to facilitate the making of deductions it may modify the deduction required of any member by such an amount as shall not exceed 1/10 of 1% of the compensation upon the basis of which such deduction is to be made.] (Deleted by

amendment, P.L. , c. .)

(8) The deductions provided for herein shall be made notwithstanding that the minimum salary provided for by law for any member shall be reduced thereby. Every member shall be deemed to consent and agree to the deductions made and provided for herein, and payment of salary or compensation less said deduction shall be a full and complete discharge and acquittance of all claims and demands whatsoever for the service rendered by such person during the period covered by such payment, except as to the benefits provided under this act. The chief fiscal officer of each employer shall certify to the retirement system in such manner as the retirement system may prescribe, the amounts deducted; and when deducted shall be paid into said annuity savings fund, and shall be credited to the individual account of the member from whose salary said deduction was made.

(9) Upon the basis of such tables recommended by the actuary as the board adopts and regular interest, the actuary shall compute the amount of the unfunded liability as of June 30, [1971] 1987 which has accrued on the basis of service rendered prior to July 1, [1971] 1987 by all members, which amount shall remain frozen and shall be amortized over a period of 40 years [, including the amount of the liability arising out of prior service as certified by the retirement system, and including the accrued liabilities established by P.L. 1964, c. 241 and P.L. 1967, c. 250]. Using the total amount of this unfunded accrued liability, [he] the actuary shall compute [the] an increasing amount of [the flat] annual payment, which is estimated ro remain a level percentage of prospective total compensation and which, if paid in each succeeding fiscal year commencing with July 1, [1972] 1988, for a period of 40 years, will provide for this liability. This shall be known as the "accrued liability contribution."

The normal and accrued liability contributions as certified by the retirement system shall be included in the budget of the employer and levied and collected in the same manner as any other taxes are levied and collected for the payment of the salaries of members.

(10) The treasurer or corresponding officer of the employer shall pay on or before March 31 in each year to the State

Treasurer the amount so certified as payable by the employer, and shall pay monthly to the State Treasurer the amount of the deductions from the salary of the members in the employ of the employer, and the State Treasurer shall credit such amount to the appropriate fund or funds, of the retirement system.

If payment of the full amount of the employer's obligation is not made within 30 days of the due date established by this act, interest at the rate of [6%] 10% per annum shall commence to run against the unpaid balance thereof on the first day after such thirtieth day.

If payment in full, representing the monthly transmittal and report of salary deductions, is not made within 15 days of the due date established by the retirement system, interest at the rate of [6%] 10% per annum shall commence to run against the total transmittal of salary deductions for the period on the first day after such fifteenth day.

(11) The expenses of administration of the retirement system shall be paid by the State of New Jersey. Each employer shall reimburse the State for a proportionate share of the amount paid by the State for administrative expense. This proportion shall be computed as the number of members under the jurisdiction of such employer bears to the total number of members in the system. The pro rata share of the cost of administrative expense shall be included with the certification by the retirement system of the employer's contribution to the system.

(12) Notwithstanding anything to the contrary, the retirement system shall not be liable for the payment of any pension or other benefits on account of the employees or beneficiaries of any employer participating in the retirement system, for which reserves have not been previously created from funds, contributed by such employer or its employees for such benefits.

(13) [Notwithstanding any other provision of this act, the Legislature shall annually appropriate and the State Treasurer shall pay into the contingent reserve fund of the retirement system an amount calculated as an increase in the normal contribution which will provide for the additional liability required to fund the benefits provided by this amendatory and supplementary act. Any saving realized by the retirement system as a result of any future increase in "regular interest" as

determined annually by the State Treasurer shall be applied by the actuary towards meeting the cost of this additional liability.] (Deleted by amendment, P.L. , c. .)

(cf: P.L. 1979, c. 109, s. 1)

6. Section 21 of P.L. 1971, c. 175 (C. 43:16A-15.4) is amended to read as follows:

21. The accrued liability contribution of any employer adopting the retirement system after July 1, [1971] 1987 for the purpose of providing prior service credit, shall be payable by the employer to the pension accumulation fund over [a] the period [of not less than 25 years] selected by the employer, provided that the period may not exceed 40 years following the initial valuation of such liability by the actuary of the retirement system.

(cf: P.L. 1971, c. 175, s. 21)

7. (New section) Pension adjustment benefits for members and beneficiaries of the Police and Firemen's Retirement System of New Jersey as provided by P.L. 1969, c. 169 (C. 43:3B-1 et seq.) shall be paid by the retirement system and shall be funded as employer obligations in a similar manner to that provided for the funding of employer obligations for the retirement benefits provided by the retirement system. The value of anticipated future adjustments for active members as of and after July 1, 1987 shall be funded as a percentage of prospective total compensation on the assumption that the funding level for the cost of these adjustments will be phased in over a period not to exceed 40 years.

8. (New section) Notwithstanding the provisions of the "Pension Adjustment Act," P.L. 1969, c. 169 (C. 43:3B-1 et seq.), pension adjustment benefits provided for under the act for members and beneficiaries of the Police and Firemen's Retirement System of New Jersey shall be paid by the retirement system and shall be funded as employer obligations in the manner prescribed for the funding of pension adjustment benefits by the retirement system by this 1988 amendatory and supplementary act, P.L. , c. (C.).

9. Section 3 of P.L. 1982, c. 198 (C. 43:16A-11.1a) is repealed.

10. This act shall take effect immediately, except that the amendment to subsection (2) of section 15 of P.L. 1944, c. 255 (C. 43:16A-15) in section 5 of this amendatory and supplementary

act shall take effect on the first day of the calendar quarter following the date of enactment by at least two months.

STATEMENT

This bill increases the special retirement allowance after 25 years of creditable service in the Police and Firemen's Retirement System from 60% of final compensation to 65%.

The bill also provides that future membership in PFRS shall be retricted to "permanent and full-time active uniformed" employees, and certain other employees, of a police or fire department who are employed after the effective date of this act and who have received Police Training Commission certification and, in the case of employees of a police department, have full police powers, have received firearms training, and have firearms carrying privileges.

Other provisions of the bill include:

(1) PFRS assumption of the funding of pension adjustments for retirants;

(2) the establishment of a uniform rate of contribution for PFRS members of 8.5% of compensation; and

(3) the re-amortization of the system's unfunded liability as of June 30, 1987 over a period of 40 years.

PENSIONS AND RETIREMENT
Police Officers

Increases special retirement allowance in PFRS; restricts PFRS membership; assumes funding of pension adjustments; amends other provisions of PFRS statute.

[CORRECTED COPY]
[SECOND REPRINT]

SENATE, No. 2602

STATE OF NEW JERSEY

INTRODUCED MAY 26, 1988

By Senator RUSSO

AN ACT concerning the membership and the retirement of certain members of the Police and Firemen's Retirement System, amending and supplementing P.L.1944, c. 255, [1][and][1] amending P.L.1964, c.241 and P.L.1971, c.175, and repealing [1]section 3 of P.L.1979, c.109[1] and section 3 of P.L.1982, c.198.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. Section 1 of P.L.1944, c.255 (C.43:16A-1) is amended to read as follows:

1. As used in this act:

(1) "Retirement system" shall mean the Police and Firemen's Retirement System of New Jersey as defined in section 2 of this act.

(2) [1]["Policeman or fireman" shall mean any permanent and full-time active uniformed employee, and any active permanent and full-time employee who is a detective, lineman, fire alarm operator, or inspector of combustibles of any police or fire department or any employee of a police or fire department who was a member of the retirement system for a period of 15 years prior to his transfer to a position within the department not otherwise covered by the retirement system or any officer or employee serving in the title of assistant superintendent I, assistant superintendent II, assistant superintendent III, superintendent I, superintendent II, superintendent III or administrator, prison complex within the Department of Corrections who, prior to appointment to any of those titles, was a member of the retirement system. It shall also mean any permanent, active and full-time firefighter or officer employee of the State of New Jersey, or any political subdivision thereof, with police powers and holding one of the following titles: motor

EXPLANATION--Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.
Matter enclosed in superscript numerals has been adopted as follows:
[1] Senate SSG committee amendments adopted June 23, 1988.
[2] Senate SRF committee amendments adopted September 19, 1988.

vehicles officer, motor vehicles sergeant, motor vehicles lieutenant, motor vehicles captain, assistant chief, bureau of enforcement, and chief, bureau of enforcement in the Division of Motor Vehicles, highway patrol officer, sergeant highway patrol bureau, lieutenant highway patrol bureau, captain highway patrol bureau, assistant chief highway patrol bureau, and chief highway patrol bureau in the Division of State Police, alcoholic beverage control investigator, alcoholic beverage control inspector, assistant deputy director, bureau of enforcement, and deputy director, bureau of enforcement in the Division of Alcoholic Beverage Control, inspector recruit alcoholic beverage control, inspector alcoholic beverage control, senior inspector alcoholic beverage control, principal inspector alcoholic beverage control, and supervising inspector alcoholic beverage control in the Division of State Police, conservation officer I, II, III, supervising conservation officer, and chief, bureau of law enforcement in the Division of Fish, Game and Wildlife, ranger trainee, ranger, chief ranger I and chief ranger II in the State Park Service, field section fire warden, chief, Bureau of Forest Fire Management, State forest fire warden, supervising forester (fire), principal forester (fire), senior forester (fire), assistant forester (fire), supervising forest fire warden, division forest fire warden, assistant division forest fire warden, and section forest fire warden in the Bureau of Forest Fire Management, Department of Environmental Protection, marine police officer, senior marine police officer, and principal marine police officer in the Division of State Police, marine patrolman, senior marine patrolman, principal marine patrolman, and chief, bureau of marine law enforcement, State fire marshal, deputy State fire marshal, and inspector fire safety, Department of Law and Public Safety, institution fire chief and assistant institution fire chief, Department of Human Services, correction officer, senior correction officer, correction officer sergeant, correction officer lieutenant, correction officer captain, investigator, senior investigator, principal investigator, assistant chief investigator, chief investigator and director of custody operations I, II, III in the Department of Corrections, medical security officer, assistant supervising medical security officer, and supervising medical security officer in the Department of Human Services, county detective, lieutenant of county detectives, captain of county detectives, deputy chief of county detectives, chief of county detectives, supervising auditor-investigator, auditor-investigator, electronics specialist, traffic safety coordinator-investigator, supervisor of electronics and investigations, and county investigator in the offices of the county prosecutors, county sheriff, sheriff's officer, sergeant sheriff's officer, lieutenant sheriff's officer, captain sheriff's officer, chief sheriff's officer, and sheriff's investigator in the offices of the county sheriffs, county correction officer, county correction sergeant, county correction lieutenant, county correction captain, and county deputy warden in the several county jails, industrial trade instructor and identification officer in a county of the first class having a population of more than 850,000 inhabitants, cottage officer, head cottage officer, interstate escort officer, juvenile officer, head juvenile officer, assistant supervising juvenile officer, and supervising juvenile officer, chief investigator, assistant chief investigator, senior investigator and investigator in a county welfare agency in a county of the first class, if the county adopts an ordinance or resolution, as appropriate, pursuant to subsection a. of section 2 of P.L.1985, c.221 (C.43:16A-62.3), police officer capitol police and senior police officer capitol police in the Division of State Police, patrolman capitol police, patrolman institutions, sergeant patrolman institutions, and supervising patrolman institutions and patrolman or other police officer of the Board of Commissioners of the Palisades Interstate Park appointed pursuant to R.S.32:14-21.

After the effective date of this 1988 amendatory and supplementary act, however, "policeman or fireman" shall mean any permanent and full-time active uniformed employee of a police or fire department, and any active permanent and full-time employee who is a detective, lineman, fire alarm operator, or inspector of combustibles of a police or fire department, appointed or employed subsequent to that effective date who has received Police Training Commission certification and, in the case of an employee of a police department, who has full police powers, has received firearms training, and has firearms carrying privileges; and shall also mean any person who is a member of the retirement system on that effective date. Any employees of a police or fire department who are employed after that effective date and who do not meet those qualifications shall not be members of the retirement system. In no instance shall an employee of a police or fire department who was employed prior to the effective date of P.L.1986, c.112 and who shall assume a new title by merit of promotion or a change in title of position be denied continued membership in the Police and Firemen's Retirement System.]

(a) "Policeman" shall mean a permanent, full-time employee of a law enforcement unit as defined in section 2 of P.L.1961, c.56 (C.52:17B-67) or the State, other than an officer or trooper of the Division of State Police whose position is covered by the State Police Retirement System, whose primary duties include the investigation, apprehension or detention of persons suspected or convicted of violating the criminal laws of the State and who:

(i) is authorized to carry a firearm while engaged in the actual performance of his official duties;

(ii) has police powers;

(iii) is required to complete successfully the training requirements prescribed by P.L.1961, c.56 (C.52:17B-66 et seq.) or comparable training requirements as determined by the board of trustees; and

(iv) is subject to the physical and mental fitness requirements applicable to the position of municipal police officer established by an agency authorized to establish these requirements on a Statewide basis, or comparable physical and mental fitness requirements as determined by the board of trustees.

The term shall also include an administrative or supervisory employee of a law enforcement unit or the State whose duties include general or direct supervision of employees engaged in investigation, apprehension or detention activities or training responsibility for these employees and a requirement for engagement in investigation, apprehension or detention activities if necessary, and who is authorized to carry a firearm while in the actual performance of his official duties and has police powers.

(b) "Fireman" shall mean a permanent, full-time employee of a firefighting unit whose primary duties include the control and extinguishment of fires and who is subject to the training and physical and mental fitness requirements applicable to the position of municipal firefighter established by an agency authorized to establish these requirements on a Statewide basis, or comparable training and physical and mental fitness requirements as determined by the board of trustees. The term shall also include an administrative or supervisory employee of a firefighting unit whose duties include general or direct supervision of employees engaged in fire control and extinguishment activities or training responsibility for these employees and a requirement for engagement in fire control and extinguishment activities if necessary. As used in this paragraph, "firefighting unit" shall mean a municipal fire department, a fire district, or an agency of a county or the State which is responsible for control and extinguishment of fires.[1]

(3) "Member" shall mean any policeman or fireman included in the membership of the retirement system [1][as provided in section 3 of this act] pursuant to this 1988 amendatory and supplementary act[1].

(4) "Board of trustees" or "board" shall mean the board provided for in section 13 of this act.

(5) "Medical board" shall mean the board of physicians provided for in section 13 of this act.

(6) "Employer" shall mean the State of New Jersey, the county, municipality or political subdivision thereof which pays the particular policeman or fireman.

(7) "Service" shall mean service as a policeman or fireman paid for by an employer.

(8) "Creditable service" shall mean service rendered for which credit is allowed as provided under section 4 of this act.

(9) "Regular interest" shall mean interest as determined annually by the State Treasurer after consultation with the Directors of the Divisions of Investment and Pensions and the actuary of the system. It shall bear a reasonable relationship to the percentage rate of earnings on investments but shall not exceed 105% of such percentage rate.

(10) "Aggregate contributions" shall mean the sum of all the amounts, deducted from the compensation of a member or contributed by him or on his behalf, standing to the credit of his individual account in the annuity savings fund.

(11) "Annuity" shall mean payments for life derived from the aggregate contributions of a member.

(12) "Pension" shall mean payments for life derived from contributions by the employer.

(13) "Retirement allowance" shall mean the pension plus the annuity.

(14) "Earnable compensation" shall mean the full rate of the salary that would be payable to an employee if he worked the full normal working time for his position. In cases where salary includes maintenance, the retirement system shall fix the value of that part of the salary not paid in money which shall be considered under this act.

(15) "Average final compensation" shall mean the average annual salary upon which contributions are made for the three years of creditable service immediately preceding his retirement or death, or it shall mean the average annual salary for which contributions are made during any three fiscal years of his or her membership providing the largest possible benefit to the member or his beneficiary.

(16) "Retirement" shall mean the termination of the member's active service with a retirement allowance granted and paid under the provisions of this act.

(17) "Annuity reserve" shall mean the present value of all payments to be made on account of any annuity or benefit in lieu of any annuity computed upon the basis of such mortality tables recommended by the actuary as shall be adopted by the board of trustees, and regular interest.

(18) "Pension reserve" shall mean the present value of all payments to be made on account of any pension or benefit in lieu of any pension computed upon the basis of such mortality tables recommended by the actuary as shall be adopted by the board of trustees, and regular interest.

(19) "Actuarial equivalent" shall mean a benefit of equal value when computed upon the basis of such mortality tables recommended by the actuary as shall be adopted by the board of trustees, and regular interest.

(20) "Beneficiary" shall mean any person receiving a retirement allowance or other benefit as provided by this act.

(21) "Child" shall mean a deceased member's or retirant's

unmarried child (a) under the age of 18, or (b) 18 years of age or older and enrolled in a secondary school, or (c) under the age of 24 and enrolled in a degree program in an institution of higher education for at least 12 credit hours in each semester, provided that the member died in active service as a result of an accident met in the actual performance of duty at some definite time and place, and the death was not the result of the member's willful misconduct, or (d) of any age who, at the time of the member's or retirant's death, is disabled because of mental retardation or physical incapacity, is unable to do any substantial, gainful work because of the impairment and his impairment has lasted or can be expected to last for a continuous period of not less than 12 months, as affirmed by the medical board.

(22) "Parent" shall mean the parent of a member who was receiving at least one-half of his support from the member in the 12-month period immediately preceding the member's death or the accident which was the direct cause of the member's death. The dependency of such a parent will be considered terminated by marriage of the parent subsequent to the death of the member.

(23) "Widower" shall mean the man to whom a member or retirant was married at least two years before the date of her death and to whom she continued to be married until the date of her death and who was receiving at least one-half of his support from the member or retirant in the 12-month period immediately preceding the member's or retirant's death or the accident which was the direct cause of the member's death. The dependency of such a widower will be considered terminated by marriage of the widower subsequent to the death of the ember or retirant. In the event of the payment of an accidental death benefit, the two-year qualification shall be waived.

(24) "Widow" shall mean the woman to whom a member or retirant was married at least two years before the date of his death and to whom he continued to be married until the date of his death and who has not remarried. In the event of the payment of an accidental death benefit, the two-year qualification shall be waived.

(25) "Fiscal year" shall mean any year commencing with July 1, and ending with June 30, next following.

(26) "Compensation" shall mean the base salary, for services

as a member as defined in this act, which is in accordance with established salary policies of the member's employer for all employees in the same position but shall not include individual salary adjustments which are granted primarily in anticipation of the member's retirement or additional remuneration for performing temporary duties beyond the regular workday.

(27) "Department" shall mean any police or fire department of a municipality or a fire department of a fire district located in a township or a county police or park police department or the appropriate department of the State or instrumentality thereof.

(28) "Final compensation" means the compensation received by the member in the last 12 months of creditable service preceding his retirement.

(cf: P.L.1986, c.165, s.1)

2. Section 6 of P.L.1944, c.255 (C.43:16A-6) is amended to read as follows:

6. (1) Upon the written application by a member in service, by one acting in his behalf or by his employer, any member, under 55 years of age, who has had 5 or more years of creditable service may be retired [, not less than 1 month next following the date of filing such application,] on an ordinary disability retirement allowance; provided, that the medical board, after a medical examination of such member, shall certify that such member is mentally or physically incapacitated for the performance of his usual duty and of any other available duty in the department which his employer is willing to assign to him and that such incapacity is likely to be permanent and to such an extent that he should be retired.

(2) Upon retirement for ordinary disability, a member shall receive an ordinary disability retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his aggregate contributions and

(b) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 1 1/2 % of average final compensation multiplied by his number of years of creditable service but in no event shall the total allowance be less than 40% of the member's average final compensation.

(3) Upon the receipt of proper proofs of the death of a member who has retired on an ordinary disability retirement allowance, there shall be paid to such member's beneficiary, an amount equal to 3 1/2 times the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service; provided, however, that if such death shall occur after the member shall have attained 55 years of age the amount payable shall equal 1/2 of such compensation instead of 3 1/2 times such compensation.

(cf: P.L.1971, c.175, s.3)

3. Section 7 of P.L.1944, c.255 (C.43:16A-7) is amended to read as follows:

7. (1) Upon the written application by a member in service, by one acting in his behalf or by his employer any member may be retired [, not less than 1 month next following the date of filing such application,] on an accidental disability retirement allowance; provided, that the medical board, after a medical examination of such member, shall certify that the member is permanently and totally disabled as a direct result of a traumatic event occurring during and as a result of the performance of his regular or assigned duties and that such disability was not the result of the member's willful negligence and that such member is mentally or physically incapacitated for the performance of his usual duty and of any other available duty in the department which his employer is willing to assign to him. The application to accomplish such retirement must be filed within 5 years of the original traumatic event, but the board of trustees may consider an application filed after the 5-year period if it can be factually demonstrated to the satisfaction of the board of trustees that the disability is due to the accident and the filing was not accomplished within the 5-year period due to a delayed manifestation of the disability or to other circumstances beyond the control of the member.

(2) Upon retirement for accidental disability, a member shall receive an accidental disability retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his aggregate contributions and

(b) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 2/3 of the member's actual annual compensation for which contributions were being made at the time of the occurrence of the accident.

(3) Upon receipt of proper proofs of the death of a member who has retired on accidental disability retirement allowance, there shall be paid to such member's beneficiary, an amount equal to 3 1/2 times the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service; provided, however, that if such death shall occur after the member shall have attained 55 years of age the amount payable shall equal 1/2 of such compensation instead of 3 1/2 times such compensation.

(4) Permanent and total disability resulting from a cardiovascular, pulmonary or musculo-skeletal condition which was not a direct result of a traumatic event occurring in the performance of duty shall be deemed an ordinary disability.

(cf: P.L.1971, c.175, s.4)

4. Section 16 of P.L.1964, c.241 (C.43:16A-11.1) is amended to read as follows:

16. Should a member resign after having established 25 years of creditable service, he may elect "special retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in section 11, a retirement allowance which shall consist of:

(1) An annuity which shall be the actuarial equivalent of his aggregate contributions, and

(2) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [60%] <u>65%</u> of his final compensation, plus 1% of his final compensation multiplied by the number of years of creditable service over 25 but not over 30; provided, however, that any member who has earned, prior to July 1, 1979, more than 30 years of creditable service, shall receive an additional 1% of his final compensation for each year of his creditable service over 30.

The board of trustees shall retire him at the time specified or at such other time within 1 month after the date so specified as the board finds advisable.

Upon the receipt of proper proofs of the death of such a retired member, there shall be paid to his beneficiary an amount equal to one-half of the final compensation received by the member.

(cf: P.L.1982, c.198, s.2)

5. Section 15 of P.L.1944, c.255 (C.43:16A-15) is amended to read as follows:

15. (1) The contributions required for the support of the retirement system shall be made by members and their employers.

(2) [Upon the basis of such tables recommended by the actuary as the board shall adopt and regular interest, the actuary of the retirement system shall determine for each age at entrance into the system the percentage of compensation of the member entering at such age, exclusive of the additional contribution prescribed by subsections (3)(c) and (3)(d) of this section, which, if deducted from each payment of his prospective earnable compensation throughout active service, is computed to be sufficient to provide for all benefits on account of his membership.]

The uniform percentage contribution rate for members shall be 8.5% of compensation.

(3) [(a) The percentage contribution rate of each member, exclusive of the additional contribution prescribed by subsections (3)(c) and (3)(d) of this section, shall be fixed according to his age at entrance into membership and shall be one-half of the total percentage contribution rate calculated for such age to be required to provide all benefits except the pensions upon accidental disability and the benefits payable upon death.

(b) Notwithstanding the provisions of subsection (3)(a) of this section, the percentage contribution rates for members of the retirement system exclusive of the additional contribution prescribed by subsections (3)(c) and (3)(d) of this section, shall be fixed at the contribution rates in effect as of July 1, 1967.

(c) Effective July 1, 1968, all proportions of compensation are increased by an additional 1% of compensation which is subject to deductions from the compensation of members or contributions made on their behalf by their employers in lieu of such deductions.

(d) Upon the effective date of this 1979 amendatory and supplementary act, all proportions of compensation are increased by an additional 1% of compensation which is subject to deductions from the compensation of members or contributions made on their behalf by their employers in lieu of such deductions.] (Deleted by amendment, P.L. , c. .)

(4) [Each employer shall make a contribution equal to that made by each member in its employ and in addition shall make a contribution equal to the percentage of the compensation of each such member certified by the retirement system to be required to provide the cost of accidental disability pensions and any death benefits on his account. Notwithstanding this provision, the retirement system shall certify an average and uniform rate for payments by all employers, which shall be set on the basis of the annual actuarial valuations to be sufficient to provide with previous contributions of employers all benefits for which employers are responsible. This shall be known as the "normal contribution."]

Each employer shall make contributions equal to the percentage of compensation of members in its employ as certified by the board of trustees based on annual actuarial valuations. The percentage rate of contribution payable by employers shall be determined initially on the basis of the entry age normal cost method. This shall be known as the "normal contribution."

(5) [In addition each employer shall make such contributions, if any, as is certified by the retirement system to be required to provide for accrued liability arising out of all prior service granted to members chargeable to such employer.] (Deleted by amendment, P.L. , c. .)

(6) The percentage rates of contribution payable by [future members and all] employers pursuant to subsection (4) of this section shall be subject to adjustment from time to time by the board of trustees with the advice of the actuary on the basis of annual actuarial valuations and experience investigations as provided under section 13, so that the value of future contributions of members and employers, when taken with present assets, shall be equal to the value of prospective benefit payments.

(7) [The retirement system shall certify to the chief fiscal

officer of each employer the percentage of salary payable by each member and by the employer in behalf of his employee members. The employer shall cause to be deducted from the salary of each member the percentage of earnable compensation of each member. The retirement system shall certify to each employer the proportion of each member's compensation to be deducted, and to facilitate the making of deductions it may modify the deduction required of any member by such an amount as shall not exceed 1/10 of 1% of the compensation upon the basis of which such deduction is to be made.] [1][(Deleted by amendment, P.L. , c. .)]

Each employer shall cause to the deducted from the salary of each member the percentage of earnable compensation prescribed in subsection (2) of this section. To facilitate the making of deductions, the retirement system may modify the amount of deduction required of any member by an amount not to exceed 1/10 of 1% of the compensation upon which the deduction is based.[1]

(8) The deductions provided for herein shall be made notwithstanding that the minimum salary provided for by law for any member shall be reduced thereby. Every member shall be deemed to consent and agree to the deductions made and provided for herein, and payment of salary or compensation less said deduction shall be a full and complete discharge and acquittance of all claims and demands whatsoever for the service rendered by such person during the period covered by such payment, except as to the benefits provided under this act. The chief fiscal officer of each employer shall certify to the retirement system in such manner as the retirement system may prescribe, the amounts deducted; and when deducted shall be paid into said annuity savings fund, and shall be credited to the individual account of the member from whose salary said deduction was made.

(9) Upon the basis of such tables recommended by the actuary as the board adopts and regular interest, the actuary shall compute the amount of the unfunded liability as of June 30, [1971] 1987 which has accrued on the basis of service rendered prior to July 1, [1971] 1987 by all members, which amount shall remain frozen and shall be amortized over a period [1][of] not to

exceed[1] 40 years [1]as determined by the State Treasurer[1] [, including the amount of the liability arising out of prior service as certified by the retirement system, and including the accrued liabilities established by P.L.1964, c.241 and P.L.1967, c.250]. Using the total amount of this unfunded accrued liability, [he] the actuary shall compute [the] an increasing amount of [the flat] annual payment, which is estimated to remain a level percentage of prospective total compensation and which, if paid in each succeeding fiscal year commencing with July 1, [1972] 1988, for [1][a period of 40 years] the period determined by the State Treasurer[1], will provide for this liability. This shall be known as the "accrued liability contribution."

The normal and accrued liability contributions as certified by the retirement system shall be included in the budget of the employer and levied and collected in the same manner as any other taxes are levied and collected for the payment of the salaries of members.

(10) The treasurer or corresponding officer of the employer shall pay on or before March 31 in each year to the State Treasurer the amount so certified as payable by the employer, and shall pay monthly to the State Treasurer the amount of the deductions from the salary of the members in the employ of the employer, and the State Treasurer shall credit such amount to the appropriate fund or funds, of the retirement system.

If payment of the full amount of the employer's obligation is not made within 30 days of the due date established by this act, interest at the rate of [6%] 10% per annum shall commence to run against the unpaid balance thereof on the first day after such thirtieth day.

If payment in full, representing the monthly transmittal and report of salary deductions, is not made within 15 days of the due date established by the retirement system, interest at the rate of [6%] 10% per annum shall commence to run against the total transmittal of salary deductions for the period on the first day after such fifteenth day.

(11) The expenses of administration of the retirement system shall be paid by the State of New Jersey. Each employer shall reimburse the State for a proportionate share of the amount paid by the State for administrative expense. This proportion shall be

computed as the number of members under the jurisdiction of such employer bears to the total number of members in the system. The pro rata share of the cost of administrative expense shall be included with the certification by the retirement system of the employer's contribution to the system.

(12) Notwithstanding anything to the contrary, the retirement system shall not be liable for the payment of any pension or other benefits on account of the employees or beneficiaries of any employer participating in the retirement system, for which reserves have not been previously created from funds, contributed by such employer or its employees for such benefits.

(13) [Notwithstanding any other provision of this act, the Legislature shall annually appropriate and the State Treasurer shall pay into the contingent reserve fund of the retirement system an amount calculated as an increase in the normal contribution which will provide for the additional liability required to fund the benefits provided by this amendatory and supplementary act. Any saving realized by the retirement system as a result of any future increase in "regular interest" as determined annually by the State Treasurer shall be applied by the actuary towards meeting the cost of this additional liability.] [1][(Deleted by amendment, P.L. , c. .)] The Legislature shall annually appropriate and the State Treasurer shall pay into the pension accumulation fund of the retirement system an amount equal to 1.8% of the compensation of the members of the system upon which the normal contribution rate is based to fund the benefits provided by section 16 of P.L.1964, c.241, (C.43:16A-11.1), as amended by P.L.1979, c.109.[1]

(cf: P.L.1979, c.109, s.1)

6. Section 21 of P.L.1971, c.175 (C.43:16A-15.4) is amended to read as follows:

21. The accrued liability contribution of any employer adopting the retirement system after July 1, [1971] 1987 for the purpose of providing prior service credit, shall be payable by the employer to the pension accumulation fund over [a] the period [of not less than 25 years] selected by the employer, provided that the period may not exceed 40 years following the initial valuation of such liability by the actuary of the retirement system.

(cf: P.L.1971, c.175, s.21)

7. (New section) Pension adjustment benefits for members and beneficiaries of the Police and Firemen's Retirement System of New Jersey as provided by P.L.1969, c.169 (C.43:3B-1 et seq.) shall be paid by the retirement system and shall be funded as employer obligations in a similar manner to that provided for the funding of employer obligations for the retirement benefits provided by the retirement system. [1][The value of anticipated future adjustments for active members as of and after July 1, 1987 shall be funded as a percentage of prospective total compensation on the assumption that the funding level for the cost of these adjustments will be phased in over a period not to exceed 40 years.][1]

8. (New section) Notwithstanding the provisions of the "Pension Adjustment Act," P.L.1969, c.169 (C.43:B-1 et seq.), pension adjustment benefits provided for under the act for members and beneficiaries of the Police and Firemen's Retirement System of New Jersey shall be paid by the retirement system and shall be funded as employer obligations in the manner prescribed for the funding of pension adjustment benefits by the retirement system by this 1988 amendatory and supplementary act, P.L. , c. (C.).

[1]9. (New section) The Director of the Division of Pensions shall review the positions of all members of the retirement system on the effective date of this 1988 amendatory and supplementary act and shall recommend to the board of trustees whether or not a position shall continue to be covered under the retirement system based upon the definitions of "policeman" and "fireman" in this act. The board shall determine which positions shall continue to be covered under the retirement system. A member whose position was covered prior to the effective date of this 1988 amendatory and supplementary act shall continue to be eligible for membership in the retirement system while in the same position. Any person appointed after the effective date of this 1988 amendatory and supplementary act to a position which is not covered by the retirement system is not eligible for membership.

Upon the recommendation of the Director of the Division of Pensions, the board of trustees shall determine if a position of a law enforcement unit or firefighting unit or the State in existence on the effective date of this 1988 amendatory and supplementary act but not covered by the retirement system or established after the effective date of this 1988 amendatory and supplementary act is covered by the retirement system.

If the board determines that a position is covered by the retirement system, any person in the position is eligible to become a member of the retirement system. If the person is a member of another State-administered or county or municipal retirement system, the person may transfer membership in the other retirement system to the Police and Firemen's Retirement System in accordance with the provisions of P.L.1973, c.156 (C.43:16A-62 et seq.). Any time period under P.L.1973, c.156 calculated from the effective date of that act shall be calculated from the effective date of this 1988 amendatory and supplementary act for the purposes of this act.

A person employed in a position on or after the effective date of a determination by the board of trustees that the position is covered by the retirement system is required to enroll in the retirement system as a condition of employment, provided the person is otherwise eligible for membership by meeting the appointment, age and health requirements prescribed for all members. A person employed in a position covered by the retirement system and eligible for membership in the retirement system is ineligible for membership in any other State-administered or county or municipal retirement system.[1]

[2]10. On or before the 90th day after enactment of this 1988 amendatory and supplementary act, the Director of the Division of Pensions shall report in writing to the Governor, the Senate Revenue, Finance and Appropriations Committee, the Senate State Government, Federal and Interstate Relations and Veterans Affairs Committee, the Assembly Appropriations Committee, and the Assembly State Government Committee, or their successors, concerning the titles that will and will not continue to be covered by the retirement system and the number of people that will be affected and are projected to be affected thereby as a result of this act. The director shall provide reports to the Governor and the committees annually thereafter which shall include information concerning, but not limited to, the titles covered by the retirement system, any changes in title coverage, the number

of members affected by any changes, and the actuarial status of the retirement system.[2]

[1][9.] [2][10.[1]] 11.[2] Section 3 [1]of P.L.1979, c.109 (C.43:16A-15.5) and section 3[1] of P.L.1982, c.198 (C.43:16A-11.1a) [1][is] are[1] repealed.

[1][10.] [2][11.[1]] 12.[2] This act shall take effect immediately, except that the amendment to subsection (2) of section 15 of P.L.1944, c.255 (C.43:16A-15) in section 5 of this amendatory and supplementary act shall take effect on the first day of the calendar quarter following the date of enactment by at least two months.

PENSIONS AND RETIREMENT
Police Officers

Increases special retirement allowance in PFRS; restricts PFRS membership; assumes funding of pension adjustments; amends other provisions of PFRS statute.

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ASSEMBLYMAN ROBERT J. MARTIN (Chairman): The next bill we will take up is Mr. Cimino and Mr. Pascrell's bill -- A-3421 -- and the Senate companion bill -- S-2602.

Before we begin, I think most of the persons in this room are here because of this bill. It has been a subject of discussion in this Committee for some time. I think it may be advantageous to summarize what I believe to be what the general feeling is on the bill at this point. The Committee members may correct me if I am wrong. This is the second day of hearings on S-2602 and the Assembly identical version of that bill. It is my intention, as Chairman, to see the bill voted one way or another today, up or down.

To summarize what the bill does, it essentially has three components, one of which is that it pre-funds the cost of living adjustments in the Police and Firemen's Retirement System. The second element to the bill is that it restricts the membership of the PFRS to certain classifications, essentially those which are considered life threatening. Thirdly, it increases the retirement benefits from 60% to 65% of the final adjusted salary.

In the hearings to date, as far as the first two components of the bill -- the pre-funding of the COLA and the restriction in membership of the PFRS -- there appears to be consensus that they are good proposals and worthy of adopting in some form. The controversy seems to have fallen squarely on the third aspect of the bill, which is the component that deals with the increase in the retirement benefit from 60% to 65%. I think it is fair to say that the League of Municipalities has been a strong opponent of this bill. It seems to me that they will continue in that position today.

Let me just tell you about the areas I believe to be in contention. There are two principal ones: One is the cost, and the second one is the philosophy, or rationale for providing the increase. With respect to the cost, I think it is fair to say that the League, especially through Mr. Neely and Mr. Dressel, has said that the bill could wind up costing the State and municipalities a lot of money, into the millions, or perhaps even the billions of dollars. They have taken exception to certain assumptions of how the determination by the Division of Pensions has projected what the revenues will be in the pension fund.

On the other hand, the proponents have relied principally on the Division of Pensions, which indicates that the bill, over time, will save millions of dollars, when combined with the pre-funding of the cost of living adjustment. The Division of Pensions has indicated that in the next fiscal year, there will be an overall across-the-board savings of $19 million, although there would be some towns, numbering about 75, which would have to pay at least some amount of money for the proposal, were it to be adopted.

The second issue deals with the philosophy, or rationale. It is the League's position that the Police and Firemen's Retirement System is already a highly beneficial retirement system, and does not deserve any more, as far as its benefits. Secondly, they point toward the issue of it being a precedent-setting one, in which other retirement systems would look for potentially increased benefits along the same line.

On the other hand, the proponents of the bill argue that the positions are life-threatening and deserve special benefits. In the past, they received more as a percentage, and are only trying to receive at least what they at one time had received. They point to the fact that the rationale of the bill is one to create an incentive for turnover, particularly among older personnel, so that in some of these positions we will not have older personnel providing this kind of occupational assistance, or the jobs themselves.

And finally, they argued that the pension can afford it, and they point to its long history. As far as I can see, those seem to be the issues that are in contention. We will discuss the bill for approximately an hour and 15 minutes before I will ask that we try to take some action on it. Those who wish to testify may do so. We are going to try to cut you off, because we want to try to hear as many persons as we can this time around. We are looking for any new light on the bill, as opposed to what I may have already summarized, as far as what the opinions have been to date.

Is there anyone else here who wishes to comment before we begin to take further testimony? I will allow Mr. Cimino, if he wishes, as a cochairman -- co-sponsor with Mr. Pascrell.

ASSEMBLYMAN CIMINO: Thank you for elevating me there for a moment, Mr. Chairman.

If I may just ask, as Mr. Pascrell is the prime, or lead sponsor, if he may take a seat here at the table, as people testify?

ASSEMBLYMAN MARTIN: Bill, do you want to come up? (Assemblyman Pascrell complies)

ASSEMBLYMAN CIMINO: That is simply all I have to say. I am just hopeful that we can bring this matter to conclusion today, if possible, within the Assembly State Government Committee.

ASSEMBLYMAN MARTIN: Mr. Schluter?

ASSEMBLYMAN SCHLUTER: Mr. Chairman, there is one point I would like to make. In your introductory remarks, you said there were three features of the bills: The pre-funding of COLA; restricting the membership; and increasing the benefit. I would submit -- and I think this is born out by the facts -- that the first two -- the pre-funding of COLA and the restricting of the membership, but particularly the pre-funding of COLA -- also are manifested in a change in the formula. The formula is changed. I am saying that because that is part and heart of the concerns of many, many people in this bill.

ASSEMBLYMAN CHARLES: Mr. Chairman, I have a couple of remarks, also.

ASSEMBLYMAN MARTIN: Yes, Mr. Charles?

ASSEMBLYMAN CHARLES: I think the League and those who are opposed to the bill are concerned, as you say, about the financial implications of the bill to the taxpayers. I think all of those who are going to speak today should address themselves, really, to the question of whether or not this is going to result in greater, the same as, or lesser financial burdens on the municipalities.

I reviewed the minutes of the last meeting we had. I have looked at all of the materials we have had so far, and I am not satisfied that those things have been addressed in detail, such that we all understand the meaning of the numbers we have. I just ask that those who are going to testify this morning try to address themselves to that.

Let me just give you some notions that have come out in the testimony we have had so far, and tell you that, in my judgment anyway, they have not been explained in a form that makes it understandable to us. I think a lot of the problems that the opponents of the bill have, are that they cannot understand, in basic form, what is meant.

For example, we are talking about three things here. We are talking about establishing the unfunded accrued liability. It seems to me that at some point, somebody should address what that is now? What is the number it means under this bill? How do you pay it out? We don't have any real basic numbers to talk about that.

We talk about the pre-funding of the COLA. We ought to say-- I think there is a graph which talks about what the current expense ad hoc payment of that is, but we ought to put that in the context of what pre-funding means. There is also the question of contribution rate by the employee, as opposed to the employer. Some discussion should be undertaken as to whether those contribution rates on a current basis remain the same, as opposed to being increased, either on the part of the employer or on the part of the employee.

I note, at this point, that there is a provision in the bill that sets the contribution rate flatly at -- what is it? -- 8.5%. I think maybe somebody should address whether that is currently more than or less than the typical contribution; whether that is something different than what currently exists.

Finally, I think some discussion should be given to whether, in the event of increased benefits in the past, or miscalculations of projections now-- If those miscalculations result in a larger amount, who is to pay that? Is that going to be something paid under the employer contribution, or is that something paid under the employee contribution? I think all of those types of issues go to the question of, how much is it going to cost and who is going to pay for it?

If those things are adequately addressed, I think we can then make a decision on where we should go on the bill.

ASSEMBLYMAN MARTIN: Why don't we begin, if we may, by-- I know Carolyn Bronson is here from the Division of Pensions. I think she had some material that we may wish to talk to her about since the last meeting. Some of your questions may be answered, too, Mr. Charles. Is Carolyn here? (no response) I saw her one time.

UNIDENTIFIED SPEAKER FROM AUDIENCE: No, but Doug is here.

ASSEMBLYMAN MARTIN: I think Mr. Forrester knows something about this as well.

W I L L I A M G. D R E S S E L, J R.: Very little.

ASSEMBLYMAN MARTIN: Mr. Dressel, I will have to ask you to restrain yourself.

D O U G L A S R. F O R R E S T E R: (speaking from audience) Mr. Chairman, you're holding me accountable for something-- (remainder of sentence indiscernible)

ASSEMBLYMAN MARTIN: Doug, we're looking for your expertise on a number of questions. You may recall that last time, one of the questions dealt with the various yearly average moneys which were the interest earned on pensions.

MR. FORRESTER: Yes.

ASSEMBLYMAN MARTIN: The issue came up whether we could, from that experience, draw some conclusions as to whether the percentage that was assumed in this legislation would be enough to make the pension program sound. Maybe you can highlight that issue.

MR. FORRESTER: Mr. Chairman, the comments, I think, arose as a result of what I am sure was an inadvertent misrepresentation to the Committee with respect to the interest assumption that had been set, versus the effective rate. For some reason, there was an individual who had given you material which showed interest returns on the fund, and had represented them as returns from the pension fund. That was not correct. The reason why it wasn't correct, was because the interest rates you were given were for our Cash Management Fund. The Cash Management Fund is a fund which the State uses for its liquid purposes, yet it contains, really, about 5% of the pension fund.

So, the investment return on the pension funds cannot be derived from looking at the Cash Management Fund. The investment returns, of course, are higher, because the Cash Management Fund is dealing with just short-term activity.

Even if we used the effective rate from the pension funds at book value, we found that it ranged, during the past five years, from a low of about 7% to a high of about 8.7%. So, it ranges in there even at book value now. The important thing to appreciate there, is that the book value is the most conservative standard of measurement we could use. The reason why is because it does not take into account any market appreciation at all -- none. In other words, to the extent that we were able to be successful in earning money, so to speak, in the equity market, we don't take that into account in calculating the contribution requirements or the effective rate.

So, it was important to emphasize the fact that the 7% interest assumption, which again is only one-eighth of 1% higher than what we now assume, fell well within the range of what the statutory entitlements are.

ASSEMBLYMAN MARTIN: Was the reason it was set before at the rate it was, to try to build up some reserves, so you would have some resources to pay back the COLA, which is not now pre-funded?

MR. FORRESTER: There is no question about that, Mr. Chairman. The reason why we have used book value and not taken into account any market appreciation on the equities, is because we have been very apprehensive about a very large unbooked liability. And one of the biggest reasons why New Jersey has never gone to a market valuation, which is what the private sector uses almost universally, and which most public plans use as well, is because we have the unfunded COLA out there, which puts us in a situation today which is where we should be; namely, at the point when we bring the COLA aboard, we have enough flexibility to be able to fund the COLA in such a manner as not to break the backs of the employers who are part of the plan.

If we had gone to a market valuation system, for example, 10 years ago, it is likely -- without funding the COLA, that would mean that there would have been lower rates of contribution, and it also, I think, would put us in a very different situation now, because we wouldn't have any flexibility with regard to bringing the COLA liability into the pension fund itself.

ASSEMBLYMAN MARTIN: Mr. Charles asked about the rate of contributions. I have -- at least Glen (referring to Glen Beebe from Assembly Majority staff) made available to me -- a book which purports to say that the various rates of contribution depend on your entrance age, and they range from age 20, at which the rate of contribution is 9.57%, down to -- or up to age 36. I guess there are not too many people entering at that age, but that would be a higher percentage of 10.62%. Is that what the current situation is?

MR. FORRESTER: Yes, that is correct. Mr. Chairman, I'm glad you raised that point, and Assemblyman Charles raised that point, because it is a more important one than it would first appear. This bill sets a flat rate of contribution for members of the plan. It sets that rate at approximately the mean. It is slightly higher than the mean. The mean is actually about 8.36%. So it is set at 8.5% to have a neutral effect in terms of the pension fund itself. But it is important to do, because frankly -- and I'll say that -- the fund is vulnerable from a legal point of view. The evolution of pension systems in this country, during the past 15 years, is such that age-related contribution rates are frowned upon by the courts. I believe this is a step that should be taken to set a flat rate of contribution, irrespective of age of entry.

ASSEMBLYMAN MARTIN: Actually, I guess the percentages I gave you were the employers'.

MR. FORRESTER: Those were the employees' rates, I should think.

ASSEMBLYMAN MARTIN: Okay. I read the wrong column. The age 20 would be 7.73%, and then it would go up through age 36 or so. Actually, you have to 54 at 10.62%, so that was an error. But it seems to fall below and above that range, depending on your particular age.

Let me ask you one other thing -- a question I have. Doug, I have expressed--

MR. FORRESTER: Mr. Chairman, excuse me for just a moment. I was reminded, just for the record, that it is important to again underscore the fact that the effective rate is established by the Treasurer. That isn't in the bill itself. What we have done is, in order to make sure that there isn't any misunderstanding with respect to how we would handle all of these obligations, we have revealed to you the way in which it would be financed, but that action is an action that is taken unilaterally. Well, that is taken by the Treasurer, upon the recommendation of the Director of Pensions and the Director of Investment. So, that is set by the Treasurer -- the interest assumption, the 7%. I'm sorry I interrupted you.

ASSEMBLYMAN MARTIN: I had suggested as a way of perhaps easing the financial concerns of municipalities, that a provision would be incorporated in this bill, or perhaps a separate bill -- but we are dealing with this bill right now -- that would hold the municipalities harmless by: a) applying any unilateral, across-the-board savings to any particular municipalities that would have a deficit; or, b) if there was an overall deficit that could not provide a savings, then the percentage of contribution of the employees could be adjusted in a year thereafter to make the system whole, and to hold the municipalities harmless.

I understand the Division is opposed to that type of amendment. Is that correct?

MR. FORRESTER: Yes, Mr. Chairman, that would be correct.

ASSEMBLYMAN MARTIN: Why is that?

MR. FORRESTER: One of the reasons why I am interested in the passage of the bill, is because I believe it would solve a number of longstanding pension problems that are of significant magnitude. I wrestle every day with the administrative difficulties not only of getting pension checks paid, and right now, because of short staffing, getting phones answered, but also with the theoretical sorts of problems associated with what it means for a large plan to have so many employers a part of that plan.

To try to work out a scenario in which we have too complicated a balancing act in order to save somebody harmless in the short term, I think is not advantageous to the pension fund. One reason is that it obscures the fact that all the employers are in a pooled system and share certain liabilities. I know there is a desire from time to time to talk about the autonomy of local governments with respect to these kinds of things, but I would have to say that with respect to the police system, it is a difficult one to talk about autonomy. The reason why is because there are so many transfers that go on among police forces; the kind of obligation from the public standpoint that occurs if I go into another town. As a citizen of West Windsor, I would expect to be protected just as if I were in my own town. Those kinds of things lend themselves easily to an appreciation of the fact that we have a pension system that is dealing with statewide kinds of responsibilities. To the extent that we go and continue to carve up and fragment the valuation of those liabilities, we run into horrible administrative problems, and frankly I think we also run into significant public policy disputes. I don't want to get into a situation where we have to establish two parallel valuation systems, so that we continue to examine what would happen under one scenario, and what would happen under another.

I mean, I pay hundreds of thousands of dollars a year for actuarial work in this system to go and to value what according to different standards would cause two problems. One is that I think it would be unnecessarily expensive; and secondly, I think it would also breed litigation on the part of municipalities, which would think that at some point in time they were being disadvantaged relative to what could have been the case if things would have operated according to the old system.

I think we should also appreciate the fact that the evolution of police and fire systems in New Jersey is one in which the State assumes the administrative responsibility for managing police and fire systems, because the municipalities failed, and they failed very badly. The State of New Jersey assumed the responsibilities for 221 local pension funds -- police and fire funds. It pooled that liability and assumed one-third of it, so the State is still today financially bailing out the municipalities for the failure that they suffered previously with respect to handling the police and fire costs. That is still going on.

With respect to the issue of now going back and allowing certain calculations to be made of an individualistic sort, I would find it administratively very difficult to do. I would find that it would go exactly in the opposite direction that I am trying to go in, in terms of establishing a uniform benefit structure that provides some sense of equity among all of the towns.

ASSEMBLYMAN MARTIN: Those are the questions I had. Mr. Charles?

ASSEMBLYMAN CHARLES: Under current law, the rate of contribution of the employee--

MR. FORRESTER: Employee?

ASSEMBLYMAN CHARLES: --of the employee-- Who sets that?

MR. FORRESTER: You do.

ASSEMBLYMAN CHARLES: The individual municipality?

MR. FORRESTER: No, the State. It is in the statute.

ASSEMBLYMAN CHARLES: The State does. It's in the statute?

MR. FORRESTER: Yes.

ASSEMBLYMAN CHARLES: That is a sliding scale based on the age of entry. Is that correct?

MR. FORRESTER: Yes, Assemblyman. That is why I had requested that this be included in the bill. This is not something that came principally from the members, although it is my understanding that the members support it. It is in there because it is my perception, frankly, that if we don't put it in there, we will be required by the Federal courts to put it in there sometime. I believe it should apply to all the pension systems, not just this one. There should be a flat rate of contribution. I have received advice from our actuaries that this should be done.

ASSEMBLYMAN CHARLES: In most of the other statutes -- pension laws -- there is this contribution rate that is statutorily established. Is that correct?

MR. FORRESTER: Yes, yes.

ASSEMBLYMAN CHARLES: Now, this 8.5%-- That amount, if it is going to be changed at all, has to be changed by legislative action. Is that correct?

MR. FORRESTER: Yes, Assemblyman.

ASSEMBLYMAN CHARLES: In the event that the assumptions and the projections of the actuary do not work out -- don't work out -- under the bill as proposed, who picks up the cost of any shortfall?

MR. FORRESTER: Any time, in any of the pension plans, that there are-- Well, let me step back and say that, every year the actuary values the system. That means that the actuary takes a look at the activity that has occurred -- the salary increases that occurred in the system, what people are earning this year versus last year, how many people have died, how many individuals have transferred, left the system. All of those factors come into play, including the rate of return -- the effective rate from the Investment Division.

Those are put together in such a way that a contribution rate is arrived at. That contribution rate includes anticipated revenue from the members. The contribution rate is then given to the employers, and I send out bills. That means that to the extent that there are--

ASSEMBLYMAN CHARLES: That is a contribution rate that who makes?

MR. FORRESTER: The employer.

ASSEMBLYMAN CHARLES: The employer, okay.

MR. FORRESTER: Now, to the extent then that that is higher than last year, that means that the employer is picking up whatever net losses have taken place. That goes on a little bit every year.

Now, to the extent that we are able, we try to keep those fluctuations at a minimum, for budgetary reasons. That is what the actuarial endeavor is all about, really. It is just a budgetary device to make sure that we are able to keep our promises, and that we don't surprise the employers in terms of having some huge increase occur in any given year. To the extent that there are losses -- higher salaries that occur, higher inflation that occurs -- unless the 8.5% were changed, the employers would pick that up.

Now, I would also have to say that the employees-- Although it might appear that the employees get away scot-free, that they are safe -- okay? -- it is also the case that the employers take advantage of whatever investment gains are earned on the funds. So, to the extent that there are substantial gains in the investment, the employer takes advantage of that, and the contribution rate is lessened. So, there is a nice balance here in terms of equity.

ASSEMBLYMAN CHARLES: All right. Question: We have in the statute a schedule of what the rates of the employees are. That is set forth and is age-related. What currently is the percentage of contribution of the employer? Is it equal to that of the employee in his area, or is it greater than--

MR. FORRESTER: No, it is approximately twice what the employees put in.

L. MASON NEELY: (speaking from audience) Eighteen point seven.

ASSEMBLYMAN CHARLES: Okay. At any point, did those numbers -- those relative rates of contribution-- Were they equal?

MR. FORRESTER: Were they equal? No.

MR. NEELY: In '44--

ASSEMBLYMAN CHARLES: In 1944--

ASSEMBLYMAN MARTIN: Mr. Neely, I really-- You know, we have given you an opportunity. I would really appreciate your allowing Mr. Forrester to have his turn here.

ASSEMBLYMAN CHARLES: So that it is now--

MR. FORRESTER: Assemblyman, If I may clarify also-- In terms of saying no to that question, we have to realize that the employer has always put in the COLA on top of the fixed rate. So, even in 1944, we can say that, no, the employer has always put in more.

ASSEMBLYMAN CHARLES: I am not talking about the COLA. I am not talking about COLA now; I am just talking about the current contribution and the rate of contribution of employer/employee. COLA is something else again.

MR. FORRESTER: Yes.

ASSEMBLYMAN CHARLES: My question has to do with current contributions: The employee pays what is in the statute?

MR. FORRESTER: Right.

ASSEMBLYMAN CHARLES: The amount that the employer pays, current, is greater? That's the 17% that we heard about?

MR. FORRESTER: Yes.

ASSEMBLYMAN CHARLES: Okay.

MR. FORRESTER: It's actually more than that. It's about 18.7%.

ASSEMBLYMAN CHARLES: In the event that these-- Is it possible under the proposed legislation that that-- I shouldn't say "possible," because anything could be possible. Is there any reasonable likelihood that under the proposed legislation that percentage of employer contribution would increase, on current expenditures?

MR. FORRESTER: It would increase with the same likelihood that it would increase today. In other words, the same mechanism would be in place for making the calculations, so the likelihood of increases or decreases would, you know, be the same.

ASSEMBLYMAN CHARLES: Now, accrued liability. We have heard of unfunded accrued liability, and we are recasting that and amortizing that. That is what this bill does, right?

MR. FORRESTER: Yes.

ASSEMBLYMAN CHARLES: What is that number? I hear us talking about it. What is that number?

MR. FORRESTER: I can certainly provide that to the Committee, Assemblyman. Offhand, I wouldn't want to comment, but I can get that to you, in terms of what the value is of that.

ASSEMBLYMAN CHARLES: You see, because that is one of the things that I think is a part of the education process that has to go on. I think people have to know that as a very basic thing. It seems to me that there are, as I said before, three basic elements that we are talking about, or four maybe. We are talking about current expenses; we are talking about the unfunded accrued liability; we are talking about pre-funded COLA; and the fourth one, which I won't talk about anyway, is the enhanced benefit, and that has a cost element to it, too.

If we are talking about the unfunded accrued liability, we ought to know what that number is. When you talk to those who you want to convince and say that it's less, you should say what that number is, and say you are spreading that over 30 years, or whatever, so they can know the numbers and see that it is at least some snapshot glimpse to start off with. I don't believe we have had that. I combed the records, and I haven't seen it at all.

MR. FORRESTER: I can get that to you within a few minutes. I would say that the issue is an important one, with respect to knowing why it is that we are resetting the accrued liability. The accrued liability--

ASSEMBLYMAN CHARLES: Exactly.

ASSEMBLYMAN MARTIN: It's growing each year.

ASSEMBLYMAN CHARLES: And how that operates, too.

MR. FORRESTER: No, it's not.

ASSEMBLYMAN CHARLES: As I understand the concept, the concept is that we are going to set a number now; we are going to look at what the unfunded accrued liability is. That will be, let's say, $100 right now. Now, we operate as if that number doesn't change in our amortization schedule. Is that correct?

MR. FORRESTER: That is correct. That is what we do now, yes.

ASSEMBLYMAN CHARLES: All right. So, we ought to know that number, so that we know just how much we are amortizing and what that schedule is.

MR. FORRESTER: That is correct. What happened was-- I believe 1971 was the last year in which the accrued liability was established. The accrued liability was a measurement of those liabilities in the pension fund which were not taken into account by the normal cost. They had to do with past service liabilities. The individuals who, for a variety of reasons, were credited with more time than was anticipated in what we call "the normal cost--" That amount of money was fixed, just like a mortgage, and it was paid out over a straight period of time with level dollars.

Well today, that is practically nothing. In other words, in terms of the amount of money the employers are paying into the system, the amount that is being paid for the accrued liability is very, very little, because it was a fixed mortgage-type of process. What has occurred over the past 15, 16 years, is that there was a series of what we might call "losses -- actuarial losses." Salaries have perhaps gone up faster than we had anticipated. The benefits have changed. There have been two significant modifications with respect to how benefits are calculated in the police system. In 1979, there was a change; in 1982, there was a change. At that point in time, that had a retroactive applicability as far as how pensions were measured. But, because the accrued liability amount wasn't changed, because the mortgage amount wasn't changed, what happened was, we paid them through the normal cost. The normal cost is a calculation that is based upon the average working life of the system, which in the case of the police system is somewhere around 10 or 11 years. That means that we are funding all of those accrued liabilities over a very short period of time -- a very, very short period of time.

It is a usual, routine kind of thing to have accrued liabilities reset periodically. As a matter of fact, there are some who make a very good argument that there should be a floating accrued liability that is not fixed at any one point in time, but just continues to be financed in a rolling manner. We have not gotten to that point, but I think it is important for you to appreciate the fact that resetting the accrued liability and saying that it will be set as of July of 1988, means that we can take a rather large amount of money, which is now being funded over a 10- or 11-year period of time, put it back into an accrued liability account, and fund it over a longer period of time. There is nothing unusual about that. There is nothing the least bit illegitimate about that. That is something which then allows us to help move the COLA in.

Now, I want to make the same point that I did last time I was here. If we didn't have the benefit enhancement in this bill, I would still come to you and say the same things to you about what needs to be done to the Police and Firemen's Retirement System. The resetting of the accrued liability, the increase in the interest assumption, those things have to be done to the system in order to fund the COLA, which is an existing liability. We have financed it in order to take into account this new liability of the enhanced benefit, because that is what my job is -- to finance those liabilities. I was given that assignment, and that is what you have before you.

But, please don't misunderstand the issue of using these tools of resetting the accrued liability and so forth as something which was contrived in order to fund the enhanced benefit. That was developed in order to fund the COLA.

ASSEMBLYMAN CHARLES: I don't think that is the thing. The tools we leave-- I think most of the people are satisfied that whatever -- that you are not doing anything impermissible, or anything tricky. I think what they want to know is whether -- or what that means in terms of dollars and cents. I heard you say that we have been operating on the assumption that the accrued liability is much less than it actually is.

MR. FORRESTER: Yes.

ASSEMBLYMAN CHARLES: You said that. Now, it seems to follow from that, that if you now take into account the actual accrued liability, and that is some larger number than you are now taking payments for, and now you say you have to pay that off, it seems to me that you are going to be paying more. That's in simple terms, right? I mean, if you have a small amount -- forget the tools and all the rest of that-- If you say you are operating as if you owe $10, when in reality you owe $100-- Now that you decide that you have to pay $100, you have to pay more than if you were operating as though you had to pay $10. I mean, that is kind of a simple way of trying to get some understanding of this recasting of the accrued liability.

MR. FORRESTER: The only issue here is not adding new liabilities to the pension fund, but rather paying--

ASSEMBLYMAN CHARLES: Recognizing the liabilities.

MR. FORRESTER: No, it's not even recognizing them. We have recognized them; we have recognized them. They are being paid under the normal cost, which is paid over about a

10-year period. What we are doing is taking a hunk of money that we now have a 10-year payment period for, and we are putting it over into another pot which has a longer payment period. That is what we are doing. It isn't recognizing any newer liabilities. It is just taking a portion, which is usually done in pension plans, and funding it as part of an accrued liability. The accrued liability accounts in all of the pension funds are paid over a long period of time, usually between 30 and 40 years, and there are some pension plans that do it over 50 years, but that is not what we opted to do.

ASSEMBLYMAN MARTIN: Are there any other questions?

ASSEMBLYWOMAN CRECCO: I am not going to go into the figures or any of that, but the bottom line is-- Within 30 or 40 years, I have two sets of figures -- two opinions. What will it cost the municipalities down the line to the taxpayers for this? Will there be an extra cost? Will it cost them a lot of money, something like $2 billion, or what?

MR. FORRESTER: If I recall correctly, with your reference to the $2 billion, that is a figure that I have heard advanced by the League of Municipalities as the calculation of adding up columns of numbers we provided. That measures the value of the benefit -- the new benefit, okay? There is no question about the fact, and if there is any uncertainty, I will state it again, any time you promise people additional pension benefits, there will be additional costs associated with that, because we are talking about additional dollars that will go out, that wouldn't go out. In other words, if I promise somebody $100, that's $100. If I promise them $105, I've got to make arrangements to pay for the $105. So there is no question about the fact that if this bill were to pass without the benefit enhancement, the costs would be less.

Moreover, if we pass the bill without the benefit enhancement, there won't be any additional liabilities. The League of Municipalities certainly understands that, and they recognize that it would just be merely funding the existing promises. So to that extent, there wouldn't be any more money that the towns would have to pay. As a matter of fact, they would be paying less, for two reasons: One, they would be paying some money more quickly, which would give them interest savings later on. And secondly, there is a reduction in the eligibility criteria under this bill.

Now, that is an academic comment, but I have to underscore the point, which I think you would want me to, in that we have been talking about this issue of COLA for some time now in academic terms. We have been talking about the complaints for the eligibility in the Police and Firemen's System for some time now. It wasn't until this bill was put in, or its predecessor, or cousins or whatever, until we really started dealing concretely with the issue. I am not aware of all of the ins and outs of the legislative calendar. You are. That is your responsibility. But I will venture an opinion, that because these issues have not been settled previously, it is highly unlikely, in my opinion, that the COLA will ever be funded, or that the eligibility will ever be restricted in the PFRS, unless this type of bill is dealt with.

Now, that is my opinion, but I am very concerned about getting the COLA funded, and about getting the eligibility restricted in the PFRS. I would like to see that happen. This is the only example of a concrete piece of legislation that would solve those problems.

ASSEMBLYMAN MARTIN: Okay. We are directing a lot of attention to the Division of Pensions because, as Mr. Charles said, certainly half of the concerns here are directly specifically to financial matters. When we get finished with -- or when Mr. Forrester gets finished with us (laughter) -- we will then try for the remaining period of time to dole it out and have everybody make at least some comment. But, bear with us, because this is really the meat and potatoes of the issue: What is the financial cost of this legislation?

Marion, did you have any other questions?

ASSEMBLYWOMAN CRECCO: Yes. So, you're saying that if we restrict the PFRS and we take care of the COLA, then it won't cost any more only.

MR. FORRESTER: No. What I'm saying is, any time you add an additional benefit -- and this adds the benefit of increasing the special retirement from 60% to 65% -- that is something which will cost more money than if you didn't add that benefit. However, because this bill, for the first time, restricts entry into the PFRS, and cleans out a number of titles that I think are questionable, we will have some very real dollar savings in that respect.

If we continue to rumble on as we have with an unfunded COLA, and with rather loose entry requirements for the PFRS, I have absolutely no doubt that financially the towns will be far worse off than if this bill is passed.

ASSEMBLYWOMAN CRECCO: Are you saying that if we use it, then we will balance it? We will have less--

MR. FORRESTER: There is no question that it is a balancing bill, in order to try to make sure that the towns don't have to come up with an exorbitant amount of money tomorrow, in order to handle the COLA liability, and we are also cutting back on the numbers of people in the PFRS over time, as a result of restricting the number of titles which will be approved as eligible titles in the PFRS.

So, from a financial point of view, I think the towns are better off. I understand that comments have been made that we should pass this bill without the benefit of an enhancement. Obviously, if we were to do that, the towns would be financially--

ASSEMBLYMAN MARTIN: Realize a greater--

MR. FORRESTER: Sure, they would be better off. But the reality of the situation as I have observed it, is that to fund the COLA and to restrict access into the PFRS, without modifying the benefit structure in some fashion, is highly unlikely. I have no doubt that it is worth it from the towns' point of view to get the system restricted and to fund the COLA. That is the main concern about this bill.

ASSEMBLYMAN MARTIN: Well, ultimately, I guess that is going to be our decision, Doug.

MR. FORRESTER: Absolutely.

ASSEMBLYMAN MARTIN: But we are first assuming that your numbers are reliable, where we are.

MR. FORRESTER: Yes.

ASSEMBLYMAN MARTIN: Mr. Schluter, do you have some questions of Doug?

ASSEMBLYMAN SCHLUTER: I have several. Thank you, Mr. Chairman. Mr. Forrester, before you came, I made the point that what I considered the crucial change in this legislation, was the change in the formula. You have dwelt on that subject, and I thank you for it. You have cleared up, I think for everybody, several matters.

It disturbs me when I go to meetings and I hear comments that this particular bill is going to actually cost less, if it is passed, for the taxpayers, for the municipalities, than if we leave it the same. There are Assembly representatives who have said this. I respect them, and I cannot in any way argue with what they have said, because looking at the figures, it is true. They look at the figures, and they say, "It is going to cost less." This is one of the main reasons that I am so concerned about this. I have no quarrel with Assembly members or anybody who says that, because that is how the figures have been projected.

Let me ask you a series of questions: Does this bill produce any more income to the system?

MR. FORRESTER: No. With the slight difference of 8.36% to 8.5%, there is a slight amount of money, perhaps a million dollars.

ASSEMBLYMAN SCHLUTER: I have one other specific question relating to what Mr. Charles said. You said that the Legislature sets the 8.5%.

MR. FORRESTER: Yes.

ASSEMBLYMAN SCHLUTER: Is that correct, or does the Legislature set the formula which arrives at the 8.5%?

MR. FORRESTER: It would set the 8.5% explicitly.

ASSEMBLYMAN SCHLUTER: Explicitly?

MR. FORRESTER: In this bill.

ASSEMBLYMAN SCHLUTER: In this bill, okay. Thank you.

Now, you have been very descriptive in talking about the need for reform -- the need for COLA reform. Is it not true that a former Treasurer in the Pension Study Commission, back in the early '80s, referred to this COLA ad hoc funding as a time bomb?

MR. FORRESTER: Yes.

ASSEMBLYMAN SCHLUTER: And that was Mr. Biederman?

MR. FORRESTER: Yes.

ASSEMBLYMAN SCHLUTER: Now, a couple of other things, which would just clarify the points you have made. You have been very forthcoming, and I appreciate it. It has helped everybody.

I understand, for example, that there was a refinancing for the TPAF recently. Was that with respect to COLA?

MR. FORRESTER: Yes, it was. If I may, I would like to correct myself. I mentioned that this was a one-eighth of 1% increase. It is actually a quarter of a percent. The one-eighth of 1% increase was a reference to the TPAF, which has gone up to 6-7/8%. The COLA was funded into the TPAF for the first time, and I am very pleased about that. Not only was COLA funded, but health care was funded for teachers. I think that New Jersey, as a result, is one of the leading lights with respect to handling liabilities for benefits.

I noticed, with some amusement, last week, an announcement by a company in Chicago which is laying credit to being on the vanguard because it funded its health benefits. Well, we did that a year ago. I think all of you should be pleased because you participated in that. The TPAF system handled its liabilities in much the same way as is described in this bill; the same kind of thing was done. (murmurings in audience)

ASSEMBLYMAN MARTIN: Folks, please. If you want to talk, go out into the hall.

MR. FORRESTER: The interest assumption was increased from 6-1/2% to 6-7/8%. The accrued liability was reestablished, and as a result of that, we were able to provide enough room in the financing package to handle the COLA liability and the health care liability.

Now, in the case of the health care liability, the additional liability put on the Teachers' Pension Fund was 10 times what is being talked about here, in terms of additional benefit liabilities. So, if you wish to compare the additional benefit that was given to teachers last year, it was 10 times the value of the additional benefit talked about here.

ASSEMBLYMAN SCHLUTER: I appreciate the full explanation. I am getting more specific here: Is it not true that -- and I don't know exactly how to phrase this -- there was a recasting of the financing of the TPAF, where the State came up with over $100 million because of a deferred liability on that, or deferred payments -- $108 million? Is that basically correct?

MR. FORRESTER: I think, Assemblyman, what happened was that, the date in the bill which we used for actuarial purposes, beyond which the COLA would be funded from the Teachers' Pension Fund, was April of '87. What happened was, the bill wasn't signed until the spring of '88. So, what happened -- we were expecting it -- was, when the bill was signed and the dust settled in terms of implementing the bill, we went back and refunded to the General Fund the money that was paid out of the General Fund on behalf of the TPAF. So, it was just a refund issue. It was a wash. Instead of it coming from the TPAF, as it should have been retroactively defined, it came out of the General Fund.

ASSEMBLYMAN SCHLUTER: Would you say that is analogous to the first-year deferral that is in this particular bill, where money is allowed to accumulate so that the whole system, plus the 7% assumed interest, makes it work out that there are, on paper, over the 40 years, lower public employer costs?

MR. FORRESTER: If you're asking me whether the refund that I just described to you is analogous, the answer is clearly no. The refund has absolutely nothing to do with what this bill is all about.

ASSEMBLYMAN SCHLUTER: That fact that there was found money, or the fact that there was--

MR. FORRESTER: It was just a refund, because the bill was signed with retroactive applicability. So, no, those have nothing to do with each other. The mechanism by which the PFRS is being funded is the same kind of mechanism that was already done with the TPAF.

ASSEMBLYMAN CHARLES: Just hold that point. That return-- Was that the result of a pre-funding of COLA, or was that just a result of the delay in implementation of the legislation?

MR. FORRESTER: It was the latter, Assemblyman. It just had to do with the retroactive date.

ASSEMBLYMAN SCHLUTER: Is it not true that in 2602 there is a delay which allows the system to pick up $40 million to make the financing work out, so that there is less cost to the employers?

MR. FORRESTER: Well, again, the issue of the refund to the General Fund and the TPAF is not analogous to what we are dealing with here. The refunding of the refinancing proposal contained in S-2602 would be the same every year. Now, what would happen, Assemblyman, is that, if the bill is not signed into law by the end of March, the local employers will have paid me money. There are two bills which all of those employers are supposed to pay by the end of March. One is for the ad hoc COLA, and the second is for the PFRS basic benefit. I will get that money. If this bill becomes law, let's say, in June, without any change in dates, then I've got the awful administrative task of implementing the new bill and refunding to the municipalities the difference in what they paid me versus what they should have paid under the bill. I would prefer to avoid that.

ASSEMBLYMAN SCHLUTER: Mr. Forrester, what is the time period over which the present financing is extended?

MR. FORRESTER: I think we have another 23 years to go.

ASSEMBLYMAN SCHLUTER: What is the time period over which the 2602 -- the proposed PRFS is funded?

MR. FORRESTER: It is a period up to 40 years.

ASSEMBLYMAN SCHLUTER: All right. Now, getting over to another point, I understand -- and correct me if I am wrong -- that this bill was amended in the Senate with respect to eligibility. It removed the eligibility from legislative determination to Pension Director and Pension Trustees' determination. Is that basically correct?

MR. FORRESTER: Yes, Assemblyman, it is. As a matter of fact, I consider that to be one of the most important features of the bill. It is an issue that is not one of legislative or administrative control. It has to do with the issue of being able to muster the facts before a decision is made. One of the major complaints that I have had -- which I have announced frequently before this Committee and all other committees that would listen to me -- is, there are various groups that come along from time to time and make a case that they are performing hazardous duty, which, in itself, is misleading. But nonetheless, what happens is, we get these titles added. There has been a large number of those titles added over time.

The most conservative group that I have encountered with respect to being able to know exactly what a job description is and what the people do, and the group which is able to make the best determination about whether someone is really performing emergency service, is the police and firemen themselves. The Police and Firemen Board of Trustees has been extremely conservative with respect to adding to their system, and there is a good reason for that. The reason is, these members understand very well that to the extent that titles are added to their system which do not belong there, it waters down the system. It destroys the system; it undermines it, and makes it very difficult to distinguish between a PERS system and a PFRS system. They know that in the long run, the integrity of their system is at stake.

Consequently, what is being established in this bill is a check and balance system, where there are clear legislative guidelines established with respect to who should be in the PFRS. That is the first time that has really ever been done. The Legislature speaks very clearly, and says: "Look, these are the people we want in this emergency services' fund, and there are very specific criteria listed. Then it is given to the Director of Pensions and the trustees to make a measurement of the real job descriptions of what those titles involve. There has to be an agreement of both parties; the Director of Pensions has to agree, and the trustees have to agree. I can't think of a better way to restrict access into this system than that.

ASSEMBLYMAN CHARLES: Just on that point, Mr. Schluter-- What stops the Legislature from coming in next year and just putting those titles back into the system?

MR. FORRESTER: Assemblyman, in my opinion, from a legal point of view, certainly the Legislature, together with the Governor, can do whatever it wishes; no doubt about that. What I have found, though, is that in the absence of clear legislative guidelines in the statute, and in the absence of any clear mechanism -- clear administrative mechanism to put these titles in based on a scrutiny of them, there is this free-for-all that has occurred over the past 15 years. I am confident that if the Legislature makes a decision now in the form of this bill, and says, "All right, here is the mechanism we are going to put into place, the clear standards," that there will be a very, very heavy argument to preclude further intrusions into the PFRS.

ASSEMBLYMAN MARTIN: As you know, there are a half a dozen groups that would want to be in there presently, with legislation pending and, in fact, I was requested last Thursday to consider an amendment to your proposed legislation to open up the classifications to include yet one more group, which is claiming to fall within the same categories that we would outline. Mr. Schluter?

ASSEMBLYMAN SCHLUTER: A couple more.

MR. FORRESTER: If I may, Assemblyman, there is an additional important point to make here on this issue of entry. Right now, on the other side of the coin, there are individuals who are in Civil Service titles, whose positions in the PFRS are jeopardized, reasonable positions that everyone would agree should be in the PFRS. If a Civil Service title is changed for some reason and it then isn't immediately adopted through the process of legislation, I've got to take those people out of the PFRS, even if their job description is virtually the same.

So, what would happen would be, it would also allow us to handle those clearly administrative problems much more easily, because we could look at the job description, and say, "Oh, the fellow is doing the same thing. Fine, we'll keep him in the PFRS." Right now, there is this long period of time that elapses where individuals are in limbo, because there has been some Civil Service change, but it has not yet wound its way through the Legislature. And in the process of winding its way through the Legislature, what inevitably occurs is that individuals approach Chairman Martin, and say, "Gee, you know, these individuals are going in for Civil Service reasons. Let's tack on-- I've got a couple of other groups out here." That is the routing.

ASSEMBLYMAN SCHLUTER: Really, I appreciate all of the detail. I know we are operating under a time constraint. I am just trying to get general answers to these. Is the COLA on the PERS pre-funded at this time?

MR. FORRESTER: No, it is not.

ASSEMBLYMAN SCHLUTER: If there were pre-funding of COLA on PERS, do you have any ball park figure -- just a general figure; no one is going to hold you to it -- of what that might mean to municipalities in extra -- or, in cost savings?

MR. FORRESTER: I have looked at that. Generally speaking, in order to shoulder the COLA for the PERS -- okay? -- which is well over $2 billion--

ASSEMBLYMAN SCHLUTER: Well over what?

MR. FORRESTER: Well over $2 billion.

ASSEMBLYMAN SCHLUTER: Two billion?

MR. FORRESTER: Right. That COLA obligation could be funded in a way that could be manageable by the PERS municipalities. The difficulty, though, is, because of the nature of the PERS, there is not the same kind of financial flexibility. That system has operated in a very, very stable fashion for a long time. There aren't any large accrued liabilities that have built up over the years which we can shift from normal cost over to the accrued liability pot.

Moreover, the average working life of the PERS is closer to 20 years, not 10 years. In addition to that, there have not been benefit changes to boot.

So what happens is, although I believe it would be possible and desirable to fund the cost of living adjustment in the PERS, it is a much more lean system from the standpoint of seeing the savings -- so-called -- that you referred to.

ASSEMBLYMAN SCHLUTER: With respect to pension benefits, once a person has retired from PFRS after 25 years, say, at age 45, compared to other pensions-- It is my understanding that the retiree can join other public service in the State.

MR. FORRESTER: You mean employment?

ASSEMBLYMAN SCHLUTER: --other public employment in the State--

MR. FORRESTER: Right, not another pension plan, but other employment.

ASSEMBLYMAN SCHLUTER: Not another pension plan, but they can join and they can collect their full pension, as long as the other plan is not under PFRS. Is that correct?

MR. FORRESTER: Yes, that is correct.

ASSEMBLYMAN SCHLUTER: All right. If someone is eligible for retirement under PERS at age 55, or if they take early retirement, whatever, and if they join public employment again and that public employment is under PERS, can they collect from their PERS pension from their first job?

MR. FORRESTER: No.

ASSEMBLYMAN SCHLUTER: They cannot?

MR. FORRESTER: No. There are some very unusual cases with respect to elected officials where that might be possible, but that is just a real small qualification.

ASSEMBLYMAN SCHLUTER: Okay. So, the fact is, the 31,000, or 35,000 in PFRS have the ability to collect a pension and to work, if they so choose, later on after they retire?

MR. FORRESTER: That availability is definitely there. Because of the nature of the work, it is certainly easier for them to find employment in a PERS job.

ASSEMBLYMAN SCHLUTER: Let me say, for your benefit and for the benefit of everybody here, I think there is one very gross inequity in the two systems. When you have law enforcement officials who have hazardous duty, in PFRS they can retire and expect to get a reasonable pension after 25 years. I think this recognizes the hazard, the burnout, whatever you want to call it. It is very unfair to those who are under the PERS. They can't effectively retire and get a benefit until age 55.

I have asked your Department to prepare legislation which would not have an age eligibility feature for people in hazardous duty -- police and firemen -- even if they are under PERS.

ASSEMBLYMAN MARTIN: Bill, I don't mean to cut you off. You made your statement. It's a little bit beyond the scope here.

ASSEMBLYMAN SCHLUTER: I have one more.

ASSEMBLYMAN MARTIN: I would really like to get some other testimony. I think we have been pretty fair to you.

ASSEMBLYMAN SCHLUTER: One final wrap-up: Did I hear you correctly--

ASSEMBLYMAN MARTIN: One question, Bill; go ahead.

ASSEMBLYMAN SCHLUTER: --saying that there would be great savings, even without the pension enhancement, but that this might be the price, or the factor that has to be considered to make it politically acceptable? Is that a fair statement?

MR. FORRESTER: Assemblyman, I prefer to phrase it this way: You are the individuals who can make the political judgments much better than I can. I merely made the observation that there has been a lot of discussion, for some time, about these problems of restricted entry into the PFRS and the funding of the COLA. I am interested in seeing something done. It seems, because of the history of these issues, that the likelihood of having something be done is much greater addressing ourselves to a bill of this sort, rather than trying to do all these things without any sort of modification of the benefits.

For example, if what is being proposed here as a restricted entry into the PFRS-- It seems unlikely to me that there could be large-scale agreement on doing that kind of thing -- restricting entry into the PFRS -- unless there is some beefing up of the PFRS structure, or benefits themselves.

ASSEMBLYMAN MARTIN: Thank you very much, Mr. Forrester. I really appreciate it.

MR. FORRESTER: Thank you, Mr. Chairman.

ASSEMBLYMAN MARTIN: We have about a half an hour. What I intend to do is ask the people who have signed up and who wish to speak, to comment on what their position is. I think it is fairly clear as to who they are and where they may wish to be on this. I will start by asking a few of the people who I know represent several persons who have not had a chance to speak at this hearing especially, or at our last meeting.

We will begin with Mayor Peter Palmer, from Bernardsville. Is he here? I know he is; I saw him earlier.

MAYOR PETER S. PALMER: Good morning, Assemblyman Martin.

ASSEMBLYMAN MARTIN: Good morning, Mayor.

MAYOR PALMER: I am Peter Palmer, Mayor of the Borough of Bernardsville. I am also an actuary.

ASSEMBLYMAN MARTIN: I am going to give you about five minutes, okay?

MAYOR PALMER: Yes, sir. I will try to stick basically to what was outlined by Assemblyman Charles.

With respect to actuarial assumptions, you can do anything you want, really. The bottom line, though, is, you pay the money. You pay it now, or you pay it later. If you pay less now, you pay more later. What determines the total amount to be paid is the benefits to be paid.

When you are changing interest rate assumptions, changing amortization period, and using current profits, and throw those all into the pot at the same time, each of those has a major effect on cost. Assemblyman Schluter, this is the kind of question you were asking. When you are doing a whole bunch of different things at once, it is very easy to mask one change by the sum of everything else. As I said, the bottom line is, what determines the total amount of dollars to be paid is what the benefit structure is.

I was glad to hear Mr. Forrester say at the end that if you increase the benefits, you increase the cost. That is exactly what is happening here. I think it is fine to pre-fund COLA. I think that is very helpful. But, the proposed benefit increase will cost money -- will cost a lot of money.

I think another thing that was alluded to by Assemblyman Schluter late in the presentation was, what is the proper relationship between PFRS and PERS? It is accepted public policy that the life-threatening occupations should get a higher pension benefit. Okay, fine. How much higher? I don't really see how you, as responsible public servants, can address this question by just looking at one of the pension plans, and the best pension plan. I think the only way it can be done properly, is to review all of the pension plans. How does it relate to PERS? How does it relate to teachers? I think the whole thing has to be looked at at once.

Doug mentioned at the end of his presentation, retirement health benefits. Retirement health benefits -- that's hospitalization and so forth after retirement -- is the biggest fiscal time bomb in this country. It is being recognized more and more. Every employer, whether it is the State of New Jersey or the counties or the municipalities they are in, or General Motors or whomever, is now looking at this retirement health benefits cost. Nobody knows what it is really going to cost, because it escalates at a much higher rate than anything else. It is another benefit cost that has to be looked at, and they should all be looked at at once. They should not be looked at one at a time.

That is basically my presentation.

ASSEMBLYMAN MARTIN: Thank you. I am going to take as many persons as I can. I would ask the Committee to forego questions. Thank you very much.

Danny Schick, Fraternal Order of Police?

SGT. DANNY D. SCHICK: Thank you, Mr. Chairman. By now, you have heard from both the opponents and the proponents of the bill, with regard to the costs. As you are aware, both the pension system and the State Treasury Department have supported this bill, and I advise you that, in fact, it will reduce the costs to the municipalities over the next 30 years. We just hope that the members of this Committee have enough confidence in the State officials to believe in what they have told you. Unlike the opponents of this bill, they have nothing to gain by distorting the facts.

With regard to the opponents of the bill, I would like to point out the following: This bill, and its companion bill -- A-3421 -- would address some key problems that the League of Municipalities has had with the existing system. They are, as you well know: pre-funding the cost of living adjustment-- This bill would raise the assumption rate to 7%, which would result in the saving of hundreds of millions of dollars to the municipalities over the next 30 years.

Also, under the old "20 and out" bill, which the League was opposed to, which would have taken out the State's responsibility for the system, this bill leaves it in. I find it ironic, though, that even with these items in the bill that the League has been seeking, they still oppose it. I think that lies with the fact that, based on their prior testimony, the League is opposed to any benefit enhancements to the membership of PFRS. Based on prior testimony they gave, if they could, they would take away some of the benefits that we presently have.

ASSEMBLYMAN MARTIN: Thank you. Anything else?

SGT. SCHICK: No. You've heard basically all of it.

ASSEMBLYMAN MARTIN: Thank you very much. Mayor Hall, from Chatham Borough? I saw her here.

MAYOR BARBARA L. HALL: Good morning.

ASSEMBLYMAN MARTIN: Good morning, Barbara.

MAYOR HALL: I think my administrator must still be driving around looking for a parking place.

Mr. Chairman, members of the Committee: I don't think there is anyone here today who would downgrade, in any way, the activities of the police or the benefits of the police to the State of New Jersey, and to my town, the Borough of Chatham. I think very highly of them, and will speak very highly of them. However, I think we have to be cognizant of the current benefits that are paid to the police, through college education, graduate, undergraduate, health insurance, sick pay accumulation, disability, guaranteed yearly salary increases, uniforms, etc., etc., and extensive training.

Every other year, there are additional benefits negotiated. Retirement benefits at 25 years at 60% would be extensive for us to handle -- or currently it is 60%. These benefits, as everyone knows, exceed private industry by far. Business taxes, coupled with property taxes, pay for these PFRS benefits, but I don't think this has taken into account the need that we have all perceived for increased numbers of police, and what will probably be increased numbers of fire personnel also. Many towns are already having difficulty continuing with their volunteer fire departments, and I think many of the regulations are creating problems for us. For instance, special police-- The regulation is there.

I don't know whether in the financing this has been costed into the account, but certainly with the drug situation today, there is no question but that we need increased police members, and they are coming in at higher salaries than ever before. Supposedly, there are 51 distressed cities, but I think you are going to have to take into account that there are another 517 cities in the State of New Jersey that you are going to have to add to this distressed account, if we do not exercise some control. I think control over the numbers of personnel who are in the Police and Firemen System could be changed through legislation that does not require this extensive a bill. You can limit those who go into the system with legislation today.

That's really all I have to say.

ASSEMBLYMAN MARTIN: Thank you, Barbara. Bill Flynn, from the firemen--

W I L L I A M   F L Y N N: Mr. Chairman, I will pass out my written statement to the Committee, and then I will make my comments very brief.

Mr. Chairman, basically my statement is going to be one to address the League of Municipalities -- the statements they have made. They have created ghosts on this bill, and they have done it very thoroughly and efficiently. They have created a cemetery and they have walked you through it; and it's midnight, and they have even put an owl in a tree. All these things, at this period of time, if you are going to turn around and say, "There are no ghosts at midnight--" Like everything else, it is very hard to turn everything around, and say, "Yes, there are no ghosts," at that period of time.

I would like this Committee to come into the daylight and walk through that same cemetery, and realize that these numbers are real. You have the State Treasurer who says they are real. You have the Director of the Division of Pensions, who sends out bills to all of the municipalities. And I have never heard of one municipality yet that has turned around and said, "I don't believe this bill. I am not going to pay it." They pay it every year. Cost of living payments are paid every year, and they are sent out by the Director of the Division of Pensions.

So, these numbers are real, and I would appreciate your voting for this bill. (applause)

ASSEMBLYMAN MARTIN: Thank you, Mr. Flynn. Let's allow everyone to have an opportunity, folks. There is no applause meter here. That is not going to influence the Committee.

Mayor Primas -- Randy Primas, Mayor of Camden? Where is he?

MAYOR MELVIN R. PRIMAS, JR.: Good morning.

ASSEMBLYMAN MARTIN: Good morning, Mayor. I'm sorry I didn't see you over there.

MAYOR PRIMAS: No problem. There is not a whole lot more I can say. I don't want to debate the issue. I would like to report, however, that at the last Urban Mayors' meeting, which took place in Bayonne, New Jersey, we discussed this issue, and there was a unanimous vote on the part of all of the urban mayors present to oppose this particular piece of legislation, simply because we are struggling to try to keep our budgets together, and we are finding great difficulty in doing that. As a result, we feel that an enhancement in terms of a benefit at some point is going to cost the local taxpayers money.

Because of that primary concern, it is the position of the Urban Mayors that we oppose this legislation. They asked that some of us come to represent that position to this

Committee on behalf of the Urban Mayors of the State of New Jersey.

ASSEMBLYMAN MARTIN: We appreciate your being here, Mayor. Thank you.

Dr. Wayne Fisher, from the Department of Law and Public Safety? Is he here? Dr. Fisher?

D R. W A Y N E S. F I S H E R: Yes, I'm here.

ASSEMBLYMAN MARTIN: You get one shot here. Good morning.

DR. FISHER: How are you, Mr. Chairman? My name is Wayne Fisher. I am Deputy Director of the Division of Criminal Justice.

Mr. Chairman, the Division of Criminal Justice in the Department of Law and Public Safety would, first of all, like to communicate our support of this bill. We think it is good public policy. We think it is a bill that is certainly in the public interest.

The Division certainly supports, as this bill does, the concept of narrowing the pension to those who are defined as policemen -- those whose job it is to enforce the law. We endorse, also, the concept of establishing standards for police officers -- standards which are accurate, standards which are valid, job-related, and fair. We think that standards ought to be in force which will ensure that the criminal laws in this State are enforced by the people who are best qualified and best trained to do so.

What we ask, however, is in the establishment of these standards, that this Committee and this bill recognize that the Police Training Commission has, for 25 years, had statutory responsibility to establish requirements and fitness standards for those who enforce the criminal laws in the State of New Jersey. We are concerned that dual standards might arise, and we are concerned that the establishment of fitness standards take into account the work over the past several years, specifically in the area of physical fitness standards, that the Police Training Commission has done. They have been involved in extensive work documenting the kinds of physical activities that are required of those performing police service. For that reason, we have forwarded, by letter, to the Director of Pensions, as well as to members of the Committee, what we think are suggested minor amendments in the language of the statute, which will ensure that we do not, as a result of this bill, wind up with conflicting fitness standards, standards which might lead us into unnecessary litigation, and which do not take into account the expertise of the people who sit on the Police Training Commission to set those types of standards.

ASSEMBLYMAN MARTIN: Thank you very much.

DR. FISHER: Right.

ASSEMBLYMAN MARTIN: Les Kurtz, New Jersey Business and Industry Association?

LESTER KURTZ: I will pass out my statement to the Committee, and I will try to summarize it as I present my testimony.

Good morning. I come before this Committee today representing a significant segment of the taxpaying public -- the business community. We would like to convey our concerns for the impact that this bill will have on local property taxes, and to all taxpayers.

We have analyzed this legislative proposal from the standpoint of how it will be viewed from a business perspective, and how business would respond to similar proposals during collective bargaining. On the basis of cost alone, it would be rejected on its face. But I think that would be irresponsible on the part of business, during contract negotiations, to take a position of rejecting it outright. There has to be a happy meeting ground.

I have attached to my statement a survey of public employee benefits on a nationwide basis, done by the U.S. Department of Labor. It points out that New Jersey's benefit structure now far exceeds anything else nationwide. By adding the benefit enhancement, it would further stand out like a sore thumb, when compared on a nationwide basis as to what other police and firemen -- what other public employees receive.

So, from that standpoint alone, it is a benefit enhancement that has to be looked at in its context, and not in a vacuum.

ASSEMBLYMAN MARTIN: How about with our geographic neighbors?

MR. KURTZ: New Jersey far exceeds all of our neighbors -- Connecticut, Pennsylvania, and New York. What I am referring to in this survey is, it looks at the replacement of a pension; how much of an individual salary does the pension provide. Our 60% now exceeds any other police department in our neighboring states, and I believe virtually all over the country. So, from that standpoint, we have to look at where we're going.

Business, I think, has to come up with a counterproposal, or would come up with a counterproposal in order to provide this benefit. If the retirees, in the collective bargaining discussion, want this benefit so badly, there are ways of providing this benefit. Business would come up with a counterproposal. One of them would be: Increase employee contributions to offset the cost of this benefit enhancement, and two, provide an actuarial reduction in benefits paid prior to age 60. Those are two counterproposals which might be considered by the Committee.

One further point: Mr. Charles raised some points this morning about trying to understand the concept. I tried to give you a similar example of how you can understand how this program is being paid for. As a homeowner, you have lived in your home for 15 years and paid off half of your mortgage. A salesman comes around and wants to sell you a pool, but you cannot get a second mortgage for that pool. A clever salesman will tell you, "I will be able to give you that pool, put it in for you, and it will not cost you one penny. I will give you the $20,000. I will help you to get your mortgage restructured." You will add $20,000 to your mortgage, and instead of 15 years remaining on your mortgage, you are now going to have 25 years remaining on your mortgage. That is how you are--

ASSEMBLYMAN MARTIN: I appreciate the analogy, but I am not sure the Division of Pensions is quite the salesman. (laughter)

MR. KURTZ: From a simplistic point of view, that is how it is proposed that this benefit enhancement be paid for, through an extension of my mortgage -- continuing to pay more. The monthly mortgage may not cost me one penny more; I am going to have a pool; but instead of 15 years remaining on my mortgage, I am now back to 25 or 30 years.

Thank you, gentlemen.

ASSEMBLYMAN MARTIN: Thank you. Pat Tansey, the Fire Fighters' Association of New Jersey?

P A T R I C K T A N S E Y: Mr. Chairman, members of the Committee: I am going to cut myself a little short here, but I think I have some things that should be said.

I'll start off by saying that the pre-funding of the cost of living adjustment is a long-sought-after reform by both the League of Municipalities and the Division of Pensions. Mr. Douglas Forrester testified before the Senate State Government Committee that there have been several times in the past where the Division of Pensions was unable to issue pension checks to retirees in the full amount, because the Division did not receive the cost of living payments from the municipalities which employed the retirees. This is an extremely poor way of operating. The need for a municipality to issue two checks through the pension system -- one for the normal cost obligation, and one for the COLA -- would be alleviated by this bill. Municipalities will have to write only one check to the system. This bill will treat the COLA as employer obligations, and will fund them over a period of time, thereby providing the municipalities with many retirees, immediate relief, and younger, smaller departments with long-term savings.

Of the 389 employers affected by this legislation, 324 will realize first-year savings. All municipalities will be establishing reserves to fund COLA, and will enjoy the added benefit of earnings derived from the investments of those savings.

Another benefit reform of this measure is the stabilization of positions to be covered under the system, by narrowing future participation according to specific qualifications for fire fighters and police officers, thus ensuring that PFRS retirements are reserved for fire fighters and police officers only, who are regularly thrust into harm's way protecting the communities they serve. This position will decrease PFRS membership by 20%, or nearly 6000 employees. All current members of the system will be provided for fairly by being grandfathered into the system. This aspect of only fire fighters and police officers being eligible for membership is also a reform that has been sought after by both the League of Municipalities and the Division of Pensions.

The legislation before you for consideration and hopefully favorable release provides that all positions that are to be considered for coverage under the system shall be reviewed by the Director of the Division of Pensions, as to their compliance with the new definition of fire fighter or police officer. Upon his recommendation, the Board of Trustees shall determine if a position of law enforcement or fire fighting unit is covered by the system.

I will let the argument put forth by the League of Municipalities that they do not believe, in effect, that the State Legislature will act according to the provisions of this bill and honor the new definition of fire fighter and police officer, speak for itself. As stated by Mr. Forrester, one of the primary reasons for the formation of the PFRS was to provide for members to retire at an earlier age due to the fact that the nature of the duties of a fire fighter and a police officer require the physical aptness of the young. I think we can all see the importance of having as young a fire fighter and police force as possible. This legislation will prove to encourage the retirement of more senior members, and provide that they be replaced by younger, more physically ready personnel. This replacement by younger personnel will, in itself, be a benefit to the municipalities. In addition to saving the municipalities money due to the fact that the new members will be paid at entry salary and benefit levels, these additional savings will be the result of reduced salaries, reduced pension costs, reduced costs of benefits, and lower or nonexistent longevity costs.

I will also add, these newly hired persons will contribute a greater portion toward the retirement benefit, due to the fact that everyone will be paying 8.5% of their salary to the pension regardless of age, from the onset of their career. Currently, members are paying on a sliding-scale basis starting at 7.73%.

The fact put forth by the League that 60% of retiring fire fighters and police officers are between the ages of 40 and 50 is, simply put, not true. The current average age of membership in the system is in the area of approximately 27 years of age. This would make it impossible for the average potential recipient of a retirement benefit from the PFRS to retire before the age of 52. Certainly, members retiring between the ages of 40 and 50 would not account for 60% of retirements, but would be the unlikely exception, rather than the rule.

Although the reason for PFRS existence is not to reward members for the extremely hazardous and stressful jobs they perform, this does not negate the fact that these hazards exist on a daily basis. In my almost 20 years as a fire fighter, I have seen far too many comrades killed, maimed, burned, subjected to unknown dangerous toxic atmospheres, and crippled than I care to think about. I know that the League of Municipalities does not consider this as a qualifier for additional retirement benefits, but I can't help but feel that all of the pain and suffering of honorable and courageous men should be a consideration when one is retiring from the service. The very nature of positions as fire fighters and police officers, and their inherent hazards, necessitates provisions in their retirement system that enable members the ability to retire and feel reasonably confident about their financial security in retirement.

A-3421 and S-2602 are good pieces of legislation. The member municipalities benefit by saving huge amounts of money the refinancing of the COLA provides. The pension system benefits by being able to guarantee payments to the retirees by having the COLA funded, and by having only fire fighters and police officers eligible for membership in the system. The more senior fire fighter and police officer benefits, along with the newly hired fire fighter and police officer who replace them. The taxpaying public benefits by having the huge savings this legislation provides available to them to reduce their tax bills.

We urge your support and favorable release of this bill.

ASSEMBLYMAN MARTIN: Thank you. Angela Grillo, New Jersey Municipal Management Association, River Edge? Is she here? (affirmative response from audience) Good morning.

A N G E L A G R I L L O: Good morning. Thank you for allowing me to speak. I am really here in a twofold way, if I may. I am the Administrator in the Borough of River Edge, which is a small municipality in Bergen County, and I am also here as the President of the New Jersey Municipal Management Association, representing that organization.

If I may just ask you to exercise your imagination, I would like to have you see standing beside me a mayor and six hard-working councilmen, such as yourselves, who are responsible to a group of people who stand behind them. And right at the moment, you must envision these people -- 11,000 of them -- with their arms crossed, lips tight, and grim-faced, because of the costs of property taxes. It has gotten to be a situation that troubles -- more than troubles -- our elected officials.

We have been unable to bring our budget in under cap. Our taxes this year, for the second year in a row, are double the increase that they have been traditionally, and there is no end in sight. Now, this is significant to the issue today, because the benefits that are being enhanced will increase the tax burden. That is the plain and simple matter. All of the statistics and all of the actuarial testimony you had, has validity in some way, but the bottom line of it all is, can we pay for it?

Now, as an Administrator and as the President of the New Jersey Municipal Management Association, I have to tell you that that group of administrators is very sympathetic with the police organization. We work also for municipal governments. We have a good working relationship; we are endeavoring to even enhance our working relationship with the police. So it is through no rancor that we say that this is an Act which should not be supported. It is bad public policy.

I would just like to add, that this is the feeling of the majority of our members. They are representative of municipalities across the State.

I thank you very much for your attention. There is one other point that I would like to make. There is a bill -- unfortunately, I do not know the number of the bill -- which I believe recommends a committee review--

ASSEMBLYMAN MARTIN: That is Assemblyman Franks' bill.

MS. GRILLO: Yes. That seems to have a lot of merit to it, and perhaps is ultimately the right way to solve this difficult problem.

ASSEMBLYMAN MARTIN: That bill was released from this Committee.

ASSEMBLYMAN CHARLES: That was not today.

ASSEMBLYMAN SCHLUTER: Stick around this afternoon. (brief discussion among Committee members as to when Assemblyman Franks' bill would be released) If you have some time, you may want to stick around.

MS. GRILLO: Thank you very much.

ASSEMBLYMAN MARTIN: Elliott Peterkin, New Jersey Paid Fire Chiefs' Association? Is he here? (affirmative response) Good morning.

E L L I O T T P E T E R K I N: Good morning. My name is Elliott Peterkin. I am the Chief of the East Orange Fire Department. I am here representing the Paid Fire Chiefs of the State of New Jersey. I am going to comment from somewhat of a different perspective than the other people have spoken about.

It is a goal of the East Orange Fire Department to provide hiring opportunities and promotional opportunities for minorities. That goal is shared by most of the urban communities in the State of New Jersey, at least the fire departments.

This pension bill would make the pension more affordable for the men to go out, which I think would expedite the retirement of the older fire fighters and officers. In the case of the City of East Orange, we have about 30 men eligible for retirement. All of them are white. Our entrance examination list is about 80% minority. Our promotional is exactly 50%. So what this would do-- It would cause a number of the older, white fire fighters to go out, which would provide opportunities for the minorities to come in. It would also have the effect of creating a younger department and, of course, fire fighting is a young man's job.

ASSEMBLYMAN MARTIN: It's five minutes to 12. What I am going to do, is give a couple of minutes to sum up to Mr. Dressel and Mr. Ginesi, who I think are probably at least two of the chief spokespersons for their particular positions. Then I will ask the Committee to try to come to some position on this legislation.

Mr. Dressel, you have approximately three minutes.

MR. DRESSEL: Mr. Chairman, I have a statement. I am going to split my time. I am going to take about a minute and a half, and then I am going to defer the remaining part of my time to Mr. Neely, Chairman of the League's Pension Study Committee.

Mr. Chairman, I thought it was very interesting in Mr. Forrester's remarks that he mentioned that he made an observation about this bill; about the benefit, and about the fact that if you, the Legislature-- The only way this bill is going to -- that you are going to achieve pension reform, is by granting a $2.7 billion benefit. He stated it. It was no casual remark or observation. He made a political statement. He, in fact, stated, for the record, that the only way you, the Legislature, the only way that we, as a State, are going to achieve real reform of the pension system, is by granting a costly pension enhancement.

I think that is a contradiction in itself, and I don't think that an appointee of this State should be making those kinds of statements. I think the Legislature should stand on its own.

You noted correctly, Mr. Chairman, at the beginning of the meeting, that the League has two objections to basic areas of the bill. One is the philosophical, and the other is the fiscal. If this bill is released today -- and we certainly hope it is not -- and it goes to the Appropriations Committee -- and we hope it does go to the Appropriations Committee -- we would-- That Committee would deal with the fiscal implications. Mr. Neely, who will follow me, will deal with some of the misimpressions that Mr. Forrester gave you with regard to the fiscal implications.

But the main thrust for you, Mr. Chairman and Committee members, today, is-- Your main charge here today is to look at the overall intent, or purpose of this bill. Does it make good common sense to grant a select segment of the public work force a costly enhancement, without any justification? There is no justification for this bill. The bill absolutely does not have any merits to give one segment of the public work force this kind of a benefit.

I think it is also ironic, Mr. Chairman, that at this particular time, as we are discussing this bill, up on the fourth floor, in Room 408, the Senate Revenue, Finance and Appropriations Committee is discussing broad-based property tax relief. If they are not successful, and if your house is not successful in adopting additional State aid -- enacting additional State aid to deal with the real fiscal crisis confronting every municipality in the State, a lot of these people standing around the room here are going to be out of a job. I think it is very clear that the costs have skyrocketed.

Without further ado, Mr. Chairman, Mr. Neely will deal with some of the concerns which Mr. Forrester raised. For the record, here are some copies of my statement.

MR. NEELY: Thank you, gentlemen and madam. Let me indicate that you are talking about-- (brief consultation between Committee member and Aide)

ASSEMBLYMAN CIMINO: I'm sorry, Mr. Neely. There is something going on here. I'm hearing you, believe me. Go right ahead.

MR. NEELY: You're talking about $40 million as a result of refinancing and changing the assumed interest rate and who gets it. Do you give $21 million to a group that is a small select group of 31,000 people, who have no basic support for the philosophical basis, or do you give $40 million back to the property taxpayers?

We have looked at the numbers that the actuary did, and we agreed. We are simply using their numbers. It is $40 million that will result. Does that $40 million go to the taxpayers, or do you give the lion's share of that -- $21 million -- to a special interest group because, "They are holding up reform of COLA"? The question is: Do the taxpayers get $21 million more, or do you rip them off for a special interest group in this $2.7 billion giveaway?

Mr. Forrester indicated that it was a cost. You cannot give away a benefit without a cost. It is interesting. He said, "The State, back in 1944 when they first started this system, did bail out a number of municipalities because of poor legislation."

I want to remind you, that if you look at the data I have given you-- "Fortune" magazine asks two questions in this issue: Industries, what are you doing with health benefits in the unfunded liability? And secondly, whatever happened to that no-cost benefit called "Federal deposit insurance," that is now costing us all $100 billion? This is the same thing, a no-cost benefit, that is going to cost $2.7 billion to every property taxpayer, and there is no hidden benefit given away with a cost.

If you look at the chart on the first page, it shows what has happened. That is The Wall Street Journal from last Friday, and it shows you that if you look at the holdings that were listed in the last official statement -- listed when the Treasurer sold bonds -- you can see that the subject of marketing the effective rate is very nebulous, and Treasury bonds and Treasury bills that they hold are falling. They could not sell them for market value, or book value, right now. If they were forced to liquidate, they would lose money on their holdings of corporate debt and Treasury debt. So, the issue that the effective rate is a safe measure, is not correct.

Secondly, look at the cost. See what the employer costs have done over time. That chart is now 18.7% this year, the employers are paying. In 1944, it was 5% for employers and 5% for employees. Look at the people who are retiring, straight out of the State's report. That is the earning income. If that doesn't look like 60-some percent of them are retiring between the ages of 40 and 50, and the statistics show that -- their own reports show that-- That is a State-produced report that shows where the retirements are. Look at where the people are who are ready to retire. The information is there. You are working on information. If you vote this bill out today, you're voting on half the package of information.

I think you ought to sit back and study it, and put together a committee to really spend full time studying this bill. I would encourage you, on behalf of those taxpayers who are going to be ripped off if you give away this $2.7 billion benefit and a $21 million first-year cost, to hold this bill.

Thank you.

ASSEMBLYMAN MARTIN: Mr. Ginesi, do you want to speak? Frank Ginesi, President of the PBA. (indiscernible response from audience)

ASSEMBLYMAN CIMINO: Mr. Chairman?

ASSEMBLYMAN MARTIN: Mr. Cimino?

ASSEMBLYMAN CIMINO: Mr. Chairman, the hour is growing late. And you know, this particular piece of legislation is very, very important to this State. I honestly believe that what Mr. Forrester has propounded here from the Division of Pensions will stand the test of scrutiny for a long period of time, and that, while we talk about the-- The issue that is at hand here, Mr. Chairman, quite frankly, is not the question of pre-funding the COLA; it is not the question of a new definition of police and fire. In point of fact, the only issue here is the enhancement. That is the real issue here.

I would suggest, Mr. Chairman, that if, in fact, this bill only dealt with the pre-funded COLA, and only dealt with a restriction of police and fire, that the League of Municipalities would be in here fourscore, as well as every other municipal leader, telling us how important it is in terms of a crisis situation in this State to move ahead with that legislation. However, rather than do this in a caldron of intense atmosphere, wherein we are not given all justification and just due to the arguments that are being propounded here by the League of Municipalities, I would just as soon hold the bill, quite frankly, Mr. Chairman, to give us even more time to prove the fallaciousness of the League's arguments.

I would hope that in its wisdom, the League of Municipalities would fight as hard for property tax reform over the course of the next several weeks and months, as it has fought to prevent this particular pre-funding of the COLA, as well as come up with a new definition of police and fire.

As I say, Mr. Chairman, in my opinion, what the crux of the argument here stems from, and revolves around-- There is unanimity between the representatives and employees, as well as the employers, with regard to pre-funding and a restriction on the definition of police and fire. There is actual unanimity here. The battle is over the 5% enhancement. That is what the battle is here. There is no mistake about that. So for that reason, Mr. Chairman, I believe that what we have put forward as sponsors of this bill -- Mr. Pascrell, myself, and Senator Russo in the Senate -- will stand the test of scrutiny, and that we have an additional obligation to convince other municipal leaders that, in fact, this bill will do, for many of the urban centers of this State, precisely what Mr. Forrester has said it will do.

So for that reason, Mr. Chairman -- and I have spoken to Mr. Pascrell-- From our position, we would like to hold the bill for a future hearing and, at that point, repost it on the agenda, sir, for the purposes of voting it out of Committee.

ASSEMBLYMAN MARTIN: Fine. It would be my intention to try to deal with the matter, but there are still outstanding questions, and I respect the sponsors. I would ask you also to consider the possibility of an amendment in the form that I had suggested, of various hold harmless provisions, which may make the bill more acceptable. Nevertheless, I think at this stage, this Committee, frankly, still has some unanswered questions.

Mr. Pascrell?

ASSEMBLYMAN PASCRELL: Thank you, Mr. Chairman. I will be very brief. You have been tremendously accommodating. I was the Director of Policy for the third largest city in this State, and as such, I opposed many of the provisions of the "20 and out," and did so publicly and privately.

I think this bill is the proper compromise, and I really believe that. I live in a city, and I pay taxes. We have heard this bill being accused of being responsible for the impending property tax escalation -- inflation. If that isn't the most ridiculous thing I have ever heard, I don't know what is. But in all fairness, we are talking about compromise here. On the one hand, there were provisions in the "20 and out" that were, perhaps to many of us, too radical, and on the other hand, we're talking about refinancing a debt. You know, we're talking about home equity loans. I heard someone say, "What is so ridiculous about consolidating our debt?" We do it every day. This is a provision of life. I mean, this bill did not create consolidation of debt. This is something that is not unheard of. It is something very common, both in the private, and certainly in the public sector.

So I think there has been a tremendous amount of misinterpretation and misrepresentation. I represent an urban district, and believe me, if I knew, and if I saw within the facts, or behind the facts, or at the bottom line, that this meant an increase in taxes in my community, it would be ludicrous of me to support this bill. It would be suicide.

ASSEMBLYMAN MARTIN: Yes, I agree with you, Bill. I don't think this is a series of smoke and mirrors. I think it was always viewed as a package of perhaps a compromise in trying to give to the municipalities in the State something that they have wanted for a long time -- a funding of the COLA -- and in order to get it, it was a question of what had to be offered in exchange. This is a proposal. The League still seems to feel that it is not a good proposal. I am concerned that if not this, then what, in order to reach that ticking time bomb that people have talked about.

I would look to the League to perhaps make some suggestions in this little time frame, because if we don't deal with that issue-- I can appreciate the fact that the police and firemen are not going to just swallow an increase in pensions at 8.5% from 7.73%, in order to see that saving, without, you know, asking for something reasonable in exchange.

But, the Committee still has some questions. Speaking to the audience, there is not enough consensus here in order to move the bill in one form or another. That has been made known to me during this meeting this morning. I do respect the sponsors' recommendation that we hold the bill.

Mr. Pascrell, one final comment.

ASSEMBLYMAN PASCRELL: One quick point, Mr. Chairman, and there will be many of these. This point is like a mirror to misrepresentations of facts that have been presented at the two hearings, and Doug referred to it earlier -- Doug

Forrester. The checking account for the State pension fund contains only 5% of the total assets. We were led to believe, at the last hearing-- I remember, because I took very extensive notes on this. We were led to believe that we were talking about the entire pension fund. We were only talking about a very minor component of the pension fund. If that isn't misleading, Mr. Chairman, I don't know what is.

Thank you.

ASSEMBLYMAN MARTIN: Well, maybe through all of this we will get closer to what is not misleading and what is.

We cannot conduct any of the other bills on the table. We will be setting up a couple of special meetings in March, to hear other matters, including some of Mr. Schluter's legislation. This bill will be held, pending the recommendations of the sponsors for further hearings.

Thank you.

ASSEMBLYMAN PASCRELL: Thank you, Mr. Chairman.

ASSEMBLYMAN CIMINO: Thank you very much, Bill.

(MEETING CONCLUDED)

APPENDIX

New Jersey State
Firemen's Mutual Benevolent Association
1544 IRVING STREET, RAHWAY, NEW JERSEY 07065

(201) 499-9250

Position statement on S-2602/A-3421
2-27-89

The New Jersey State Firemen's Mutual Benevolent Association is in support of the legislation that would reform the Police and Firemen's Pension System. It would exclude some titles presently in PFRS and confine the benefits only to those that the system was designed for. It would increase the pension benefit by 5% after 25 years. It would pre-fund the cost of living liability. All this should be done and can be done at a benefit to both employee and employer.

Titles that include persons and positions that do not require young, aggressive personnel should be excluded. The F.M.B.A. has consistently opposed the entrance of titles that do not directly and primarily perform police or fire duties.

-If for no other reason the pensions of police and firefighters should be increased because the consistent reduction in forces over the past 10 years has saved the cities millions of dollars at the cost of safety and health of the patrolman and firefighter. Ten years ago there were over 8000 firefighters in New Jersey. Now there are 6000. Something had to be sacrificed during these reductions and it wasn't the workload. It was 2 man patrol cars and 4 man fire apparatus. It was the safety of backup in the street. That might not mean much to the League of Municipalities because they are not out there making split second decisions on life or death which can be my life or my death.

The pensions of police and firemen should be increased in order to gain their support for the other provisions in the bill that will assist the cities in their fiscal problems.

New Jersey State
Firemen's Mutual Benevolent Association
1544 IRVING STREET, RAHWAY, NEW JERSEY 07065
(201) 499-9250

It has been stated here and agreed to by the league that the funding of the cost of living must be done in order to avoid the devastating impact the COLA will have on municipal budgets 10 years down the road. Some towns may bankrupt under the weight of this liability. Where is the League's sense of obligation to the future of these municipalities that they are willing to sacrifice the future of some of their members in order not to give a benefit to those that protect them? They are cutting off their noses to spite their faces.

The cities are in need of additional revenue. That is real today. Maybe 40 years from now the cities will be very well off. I cannot read the future, but I can read the present. They need money. This bill will give them a savings in the cost of living payment which equates to real money. It is not smoke and mirrors. It is a proven funding method.

The Teachers Pension and Annuity Fund used this same funding method in 1987 to cover the cost of health benefits for their retirees. In addition to affording the benefit this "smoke and mirrors" legislation returned 119 million dollars back to the State of New Jersey in reduced COLA payments.

The League's opposition is only to the increased benefit to the police and firemen and not to the the funding method they say is "smoke and mirrors".

In the 1986-87 legislative session, the police and firemen attempted to get a benefit known as the "20 and Out". The funding for that benefit was basically the the same as S-2602/A-3421.

Senator McNamara and Assemblyman Kamin introduced legislation that was exactly the same as the "20 and out" but without the benefit of "20 and out". The League supported those proposals knowing that the return to the municipalities was real.

This bill is good public policy, good for the police and firefighters and good for the cities.

Please vote for S-2602/A-3421

William Flynn

Legislative Chairman

Legislative Viewpoint

NEW JERSEY STATE LEAGUE OF MUNICIPALITIES
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JOHN E. TRAFFORD, Executive Director
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STATEMENT BY WILLIAM G. DRESSEL, JR.
ASSISTANT EXECUTIVE DIRECTOR
NEW JERSEY STATE LEAGUE OF MUNICIPALITIES
OPPOSING S-2602 AND A-3421,
WHICH INCREASE PFRS RETIREMENT BENEFITS FROM 60% TO 65% AFTER 25 YEARS
MONDAY, FEBRUARY 27, 1989
10:30 A.M.
ROOM 368
STATE HOUSE ANNEX
TRENTON, NEW JERSEY

Today, the members of the Assembly State Government Committee will determine the fate of S-2602 and A-3421. These companion measures would bestow on members of the Police and Firemen's Retirement System the right to receive a pension equal to 65% of their final compensation after only 25 years of service. Currently, PFRS members are entitled to 60% of pay after 25 years. This is already far in excess of the 41.6% granted to other public employees, after 25 years.

Obviously, this will cost money. How much? In the first year, New Jersey taxpayers will need to come up with $21 million to pay for this benefit enhancement. Over a 40-year period, the cost will equal about $2.7 billion.

In a year in which the Governor proposes a budget which diverts at least $255 million from permanent municipal revenue sources to the State's General Fund, we think it an insult to allow these bills to advance to the Assembly Appropriations Committee. That Committee needs to devote all its expertise and energy to efforts that will bring relief to our property taxpayers. It should not be asked to consider initiatives, such as S-2602 and A-3421, which will increase the burden already being borne by our beleaguered home owners and renters.

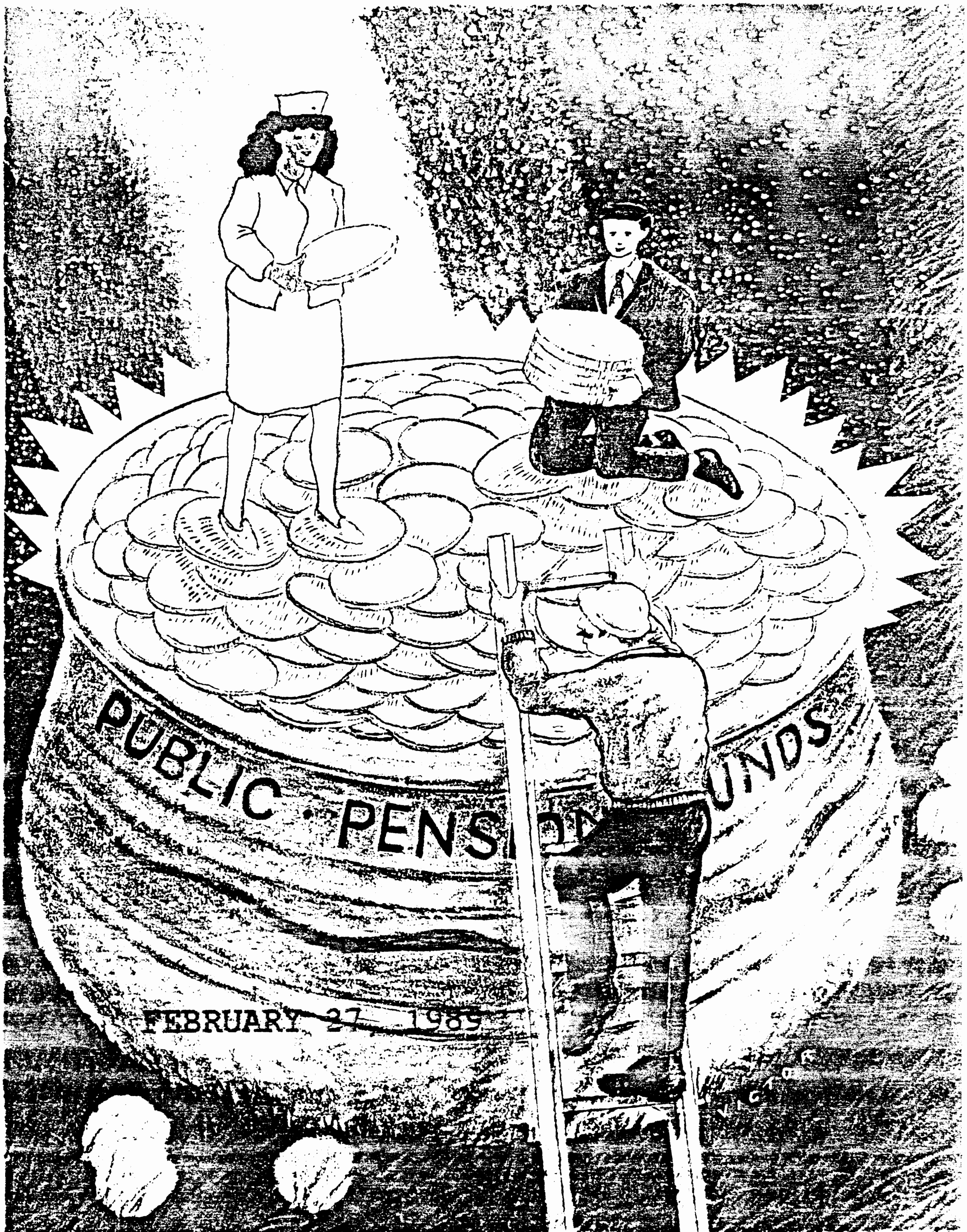
Why is this pension giveaway needed? Are we finding it difficult to attract recruits for police and fire department openings? On the contrary, the lists of applicants for public safety positions are long and growing. Do we need to provide a greater incentive for earlier police and fire retirements? On the contrary, statistics demonstrate that current benefit levels convince 60% to 70% of PFRS participants to retire as soon as possible. And even the bills' proponents project no increase in retirement rates, due to passage of these measures. Will PFRS members work harder or perform more efficiently, in return for this enhancement? We have received no assurance, to this effect, from either the bills' sponsors or its beneficiaries.

There is, in fact, no justification for this proposed giveaway. And there is nothing in this for municipal government.

Newton's Third Law of Physics states that for every action there is an equal and opposite reaction. If the members of the Assembly State Government Committee vote to release these bills, they are voting to give the average PFRS member an extra $115,000 after retirement, based on current actuarial analysis. That action will, most assuredly, produce a result which will conform to Newton's Law. The resulting reaction will be felt by New Jersey property taxpayers for years to come.

We urge the members of the Assembly State Government Committee to vote "No" on S-2602 and A-3421.

TESTIMONY OPPOSING SENATE 2602/ASSEMBLY 3421



5X

February 24, 1989

Mr. William G. Dressel
N.J. State League of Municipalities
407 West State Street
Trenton, New Jersey 08618

RE: Assumed Interest Rate

Dear Mr. Dressel:

A great deal of discussion has centered on this subject of changing the assumed interest rate from 6.75% to 7.0%. Much of that discussion has dealt with the subject of effective rate of return on pension funds. The representatives from the Division of Pension have indicated that when measuring the effective rate of returns, they measure total earnings against book value of the securities held. They go on to indicate that 40% of the securities are held in the form of stocks and the balance are held in the form of various bonds or treasury instruments. Representatives would have us believe that by using the book value compared to the return on investments is a conservative approach because the book value is below the market value of the stock. In the past that statement may have been more true than it is today because the pension funds were invested in Blue Chip stock many of which were doing business with South Africa. Recent divestiture of those holdings have resulted in new purchases. Therefore, the book value many be very close to the market value and in fact I would suspect that some of the book values are higher than the market value given the recent velocity of the stock market. But, again that only represents 40% of the total investments. (see attached)

We saw on February 6th the results of the 5% that is cash investments. Because of the need for liquidity, those earnings are far below the 7% assumed interest rate. With 40% in stock, 5% cash then the balance must be held in the form of bonds. Attached is the lead article on Friday's Wall Street Journal dealing with the bond market. As interest rates have pushed higher as a result of the uncertainty of the market, the value of the bonds is most certainly higher than the marketvalue if liquidation were required. Bonds that were purchased last year or the year before, be they long term or short term, carry a lower interest rate then bonds available in the marketplace today. Therefore, if one were to compare the interest earned on the bonds with the market value, the effective rate of return would probably fall below the 7%.

The League is not suggesting that the method of measuring the rate of return be changed. What we are suggesting is that you are dealing with volatile financial markets. One needs not reiterate what happened with the stock market in October of 1987. The market still has not recovered to it's prior 1987 level. The reverse has taken place with regards to the bond market. In October of 1987, the bonds that could be purchased were at a lower interest rate then today and therefore any investments that were made in 1987 or prior are at a lower yield then one may purchase today.

6x

The basic question that must be answered is to whom do these pension funds belong? Do they belong to the taxpayers of the State or do they belong to a special interest group consisting of 30,000 employees known as Police and Firemen to whom political favors are granted. Why because they are politically active? Because they have a political action committee (PAC) that gives high donations to elected officials? The real question before us today is whom do you represent. Do you represent the taxpayers or do you represent special interests? That is the question that must put to the Assemblyman considering A-3421 and S-2602.

Respectfully submitted,

L. Mason Neely
Finance Director
Chairman League Pension
Study Commission

LMN/np
workid2/24
cc: file

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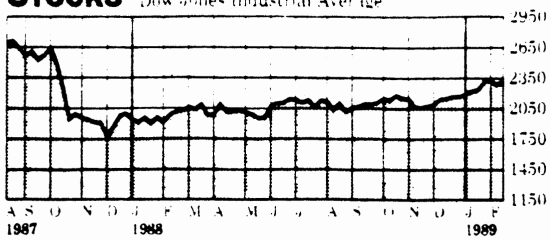
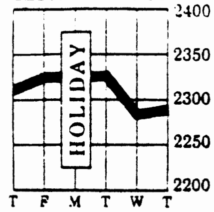
MARKETS DIARY 2/23/89

STOCKS Dow Jones Industrial Average

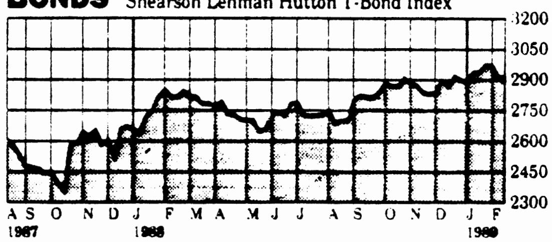


2289.46 +5.53

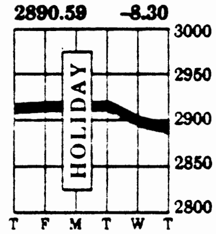


INDEX	CLOSE	NET CHNG	PCT CHNG	12-MO HIGH	12-MO LOW	12-MO CHNG	PCT	FROM 12/31	PCT
DJIA	2289.46	+ 5.53	+ 0.24	2347.14	1941.48	+ 271.89	+13.48	+ 120.89	+ 5.57
DJ Equity	274.25	+ 0.81	+ 0.30	280.94	235.47	+ 28.65	+11.67	+ 13.51	+ 5.18
S&P 500	292.05	+ 1.14	+ 0.39	299.63	250.56	+ 30.47	+11.65	+ 14.33	+ 5.16
Nasdaq Comp.	403.07	+ 0.58	+ 0.14	409.19	347.07	+ 39.45	+10.85	+ 21.69	+ 5.69
London (FT 30)	1660.7	− 13.0	− 0.78	1714.7	1382.9	+ 226.8	+15.82	+ 205.4	+14.11
Tokyo (Nikkei)	32452.49	+ 140.56	+ 0.44	32452.49	25165.18	+ 7351.83	+29.29	+ 2293.49	+ 7.60

BONDS Shearson Lehman Hutton T-Bond Index

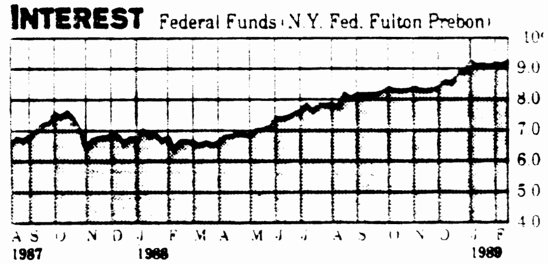


2890.59 -8.30

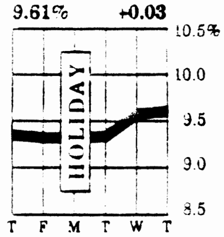


INDEX	THUR	THUR YIELD	WED	WED YIELD	YR AGO	12-MO HIGH	12-MO LOW
Shearson Lehman Hutton treas.	2890.59	9.33%	2898.89	9.30%	2828.71	2978.95	2648.95
DJ 20 Bond (Price Return)	88.22	10.10	88.28	10.10	90.80	91.25	87.18
Salomon mortgage-backed	453.66	10.50	455.52	10.40	432.78	460.17	426.83
Bond Buyer municipal	90-21	7.79	90-29	7.76	91-9	99	86-25
Merrill Lynch corporate	394.52	10.33	395.46	10.28	376.10	400.40	366.13

INTEREST Federal Funds (N.Y. Fed. Fulton Prebon)



9.61% +0.03



ISSUE	CLOSE	WED	YEAR AGO	12-MO HIGH	12-MO LOW
3-month T-bill	8.60%	8.53%	5.63%	8.60%	5.58%
3-month CD (new)	9.01	8.98	6.36	9.01	6.21
Dealer Comm. Paper (90 days)	9.49	9.45	6.58	9.49	6.50
3-month Eurodollar deposit	9.94	9.88	6.58	9.94	6.68

8K

THE WALL STREET JOURNAL. FRIDAY, FEBRUARY 24, 1989 C1

MONEY & INVESTING

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Bond Traders Settle In for More Gloom

Few Expect Market To Recover Soon

By MATTHEW WINKLER
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK – Life in the bond market is going to get worse, maybe a lot worse, before it gets better, traders are saying.

"Sentiment has changed. Now everybody's pretty sour," says Paul W. Mozer, a managing director at Salomon Brothers Inc. Adds Ed Bishop, a senior trader at Drexel Burnham Lambert Inc.: "The market's clearly for sale." Until recently, he said, "you could pound it and it wouldn't go down. Now, people are reaching pain thresholds."

Yesterday, for the first time since May 10, 1985, the yield on the Treasury's two-year notes auctioned earlier this week rose to 9.62% as bond prices continued to slide. The average yield on the Treasury's new five-year notes sold yesterday climbed to 9.49%, the highest level since Aug. 28, 1985, when it was 9.62%.

Inflation Buoys Gold

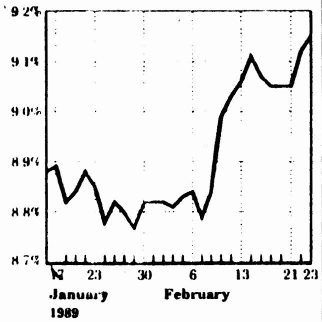
Worries about increasing inflation finally buoyed gold prices yesterday. Gold even withstood late profit-taking to retain a substantial part of overall gains. Silver and platinum ended little changed. See story on page C12.

"The auction went slightly better than expected," says Mr. Mozer. "But it wasn't enough to shake the perception that this bear phase could last several more months."

Since the Treasury sold its latest 30-year bond two weeks ago, the price has declined more than two points, or over $20 for each $1,000 face amount. The yield has climbed about 0.25 percentage point to about 9.16%, its highest level since Dec. 2,

The Leap in Yields

Daily yield on the benchmark 30-year Treasury Bond, in percent



according to Merrill Lynch Capital Markets.

Bond traders' moods started souring two weeks ago when the Treasury auctioned more than $28 billion of notes and bonds. Japanese investors, typically stalwart buyers, shunned the new issues. Prices have moved almost straight down.

Traders were further rattled when recent reports on inflation, considered a minor market irritant in December, showed an abrupt acceleration in January, rising 0.6% at the consumer level and a full percentage point at the producer level. Federal Reserve Board Chairman Alan Greenspan says he is so disturbed by surging wages and prices that tighter credit is inevitable.

For Merrill, Dean Witter Reynolds Inc., Bear, Stearns & Co. and several other large brokerage firms that strongly recommended investment-grade bonds to investors in September, the market has proved a disappointment. For instance, the total return on the Treasury's benchmark 30-year bond from Sept. 22 to Feb. 22 amounted to 2.547%, or $25.47 on a $1,000 investment, according to Merrill. The total return on the Treasury's actively traded two-year note during the same period totaled just 1.666%, or $16.66 per $1,000.

If it weren't for the income from the interest coupons on the securities, investors would have lost money on both short-term and long-term Treasurys since September. Two-year notes declined more than $19 per $1,000; 30-year bonds fell more than $11 per $1,000.

That performance "is all the more significant" because short-term securities proved far riskier than long-term ones, which is highly unusual, says Chet Ragavan, a Merrill analyst.

"People became inured to news of a strong economy because they didn't see any increases in inflation," says Mr. Bishop of Drexel. "They said we're in a new world – a competitive global economy that prevents inflation from getting out of hand. They said there's a shortage of bonds and it became a self-fulfilling prophecy for a while. People bought zero coupon bonds, the ultimate bullish bet.

"Now, they're trying to figure out how much pain they can stand," Mr. Bishop adds.

Now traders are even beginning to question the Fed's resolve to fight inflation, despite Mr. Greenspan's pronouncements and the Fed's gradual credit tightening since early last year.

"Greenspan has been fairly direct in his concern about inflation," says Mr. Mozer. "But it apparently hasn't been enough" to slow the economy and bring rates lower. "We're so far away from recession, it's not worth considering. If I thought the Fed were close to pushing us into recession, two-year notes wouldn't be trading above 9.60%. They'd be a lot lower," he adds.

Mr. Bishop of Drexel agrees: "It's disconcerting to people that Greenspan hadn't done more. He's trying to dance between inflation and the health of the financial system. But he knows not raising rates now [to curb inflation] would force a much tougher stance later when inflation is much higher."

Fed Move Pulls Stocks Out of Skid

Signal Doesn't Halt Slide of Bond Prices And Dollar, However

THURSDAY'S MARKETS

By DOUGLAS R. SEASE

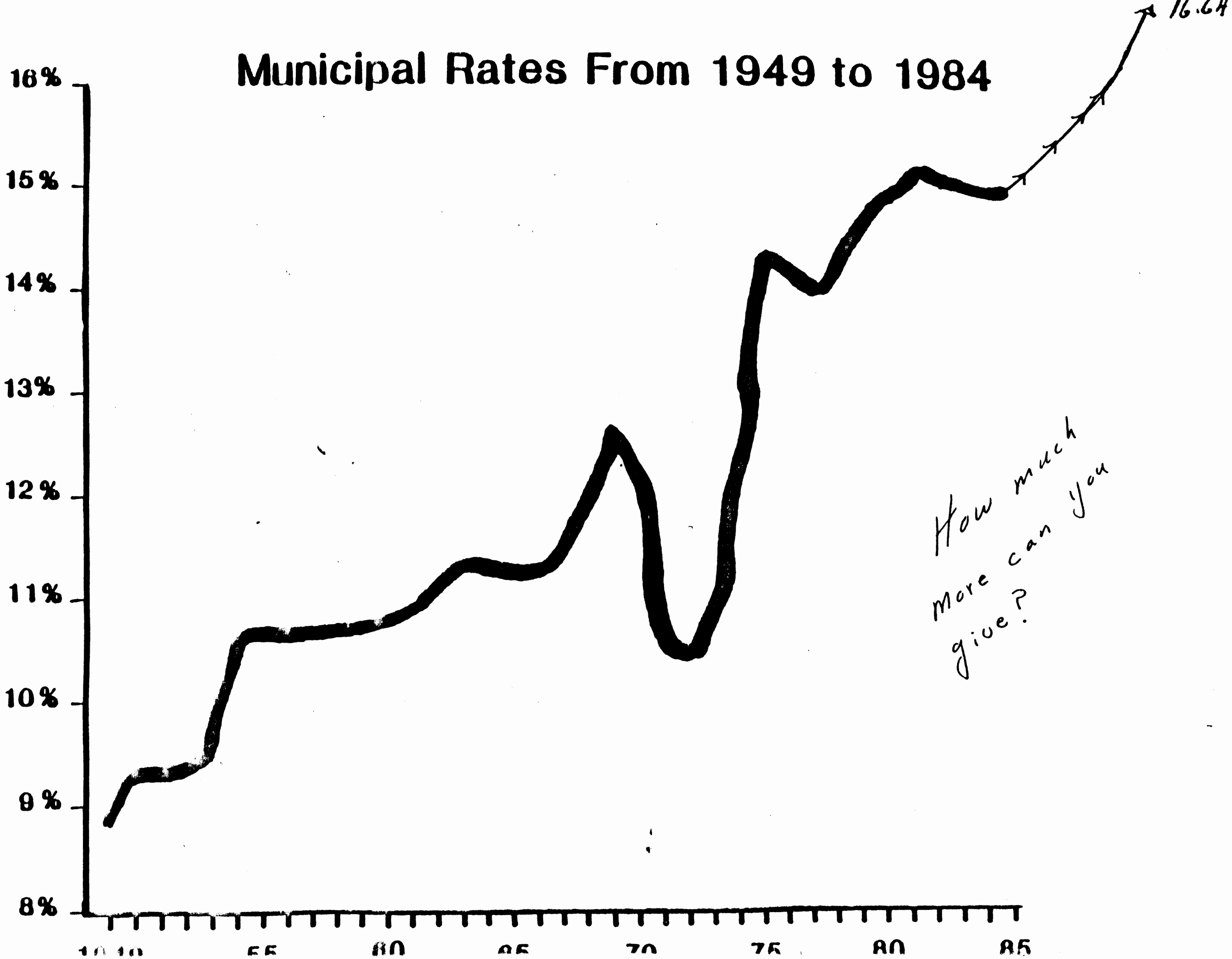
NEW YORK – A signal from the Federal Reserve that it is pushing interest rates higher to fight inflation stopped the slide in stock prices, but not in bond prices or the dollar.

The Fed drained reserves from the banking system yesterday, pushing the federal funds rate – the interest rate banks charge one another for overnight loans – to more than $9\frac{1}{2}\%$, or slightly above earlier levels of $9\frac{1}{4}\%$ to $9\frac{3}{8}\%$. The action was aimed at reassuring skittish investors that the central bank will continue to fight inflation with tighter credit conditions.

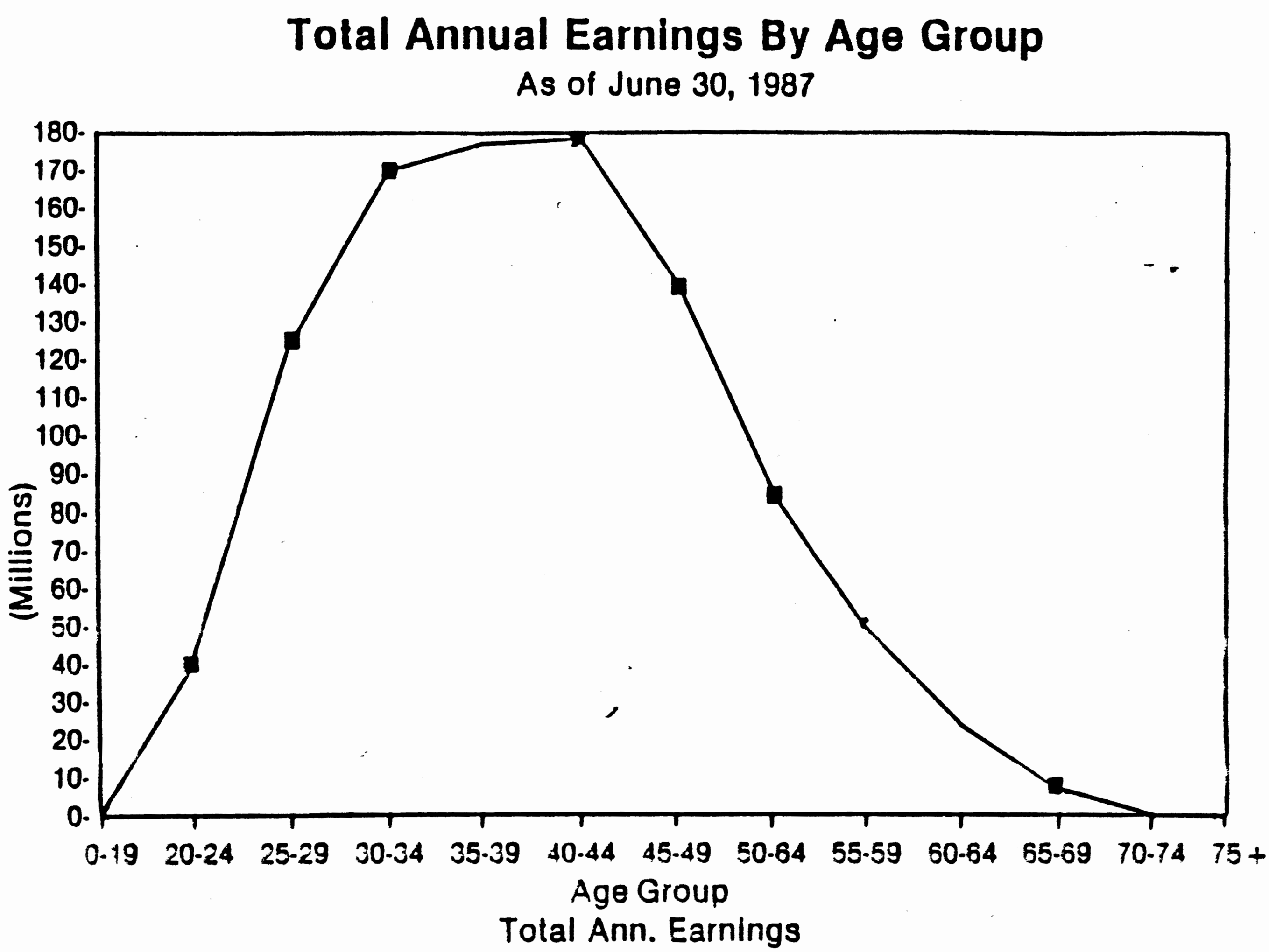
As a result, some banks boosted their prime, or base rate, to 11.5% from 11%.

Although the prime rate increase came after the stock market closed, the Fed's earlier move provided some reassurance to stock investors. The Dow Jones Industrial Average gained 5.53 points to close at 2289.46 in moderate trading after sliding 42.50 points Wednesday on news that consumer prices rose an unexpectedly high 0.6% in January. Money managers said the Fed's action provided reassurance that Chairman Alan Greenspan's resolve to battle inflation remains intact.

Municipal Rates From 1949 to 1984

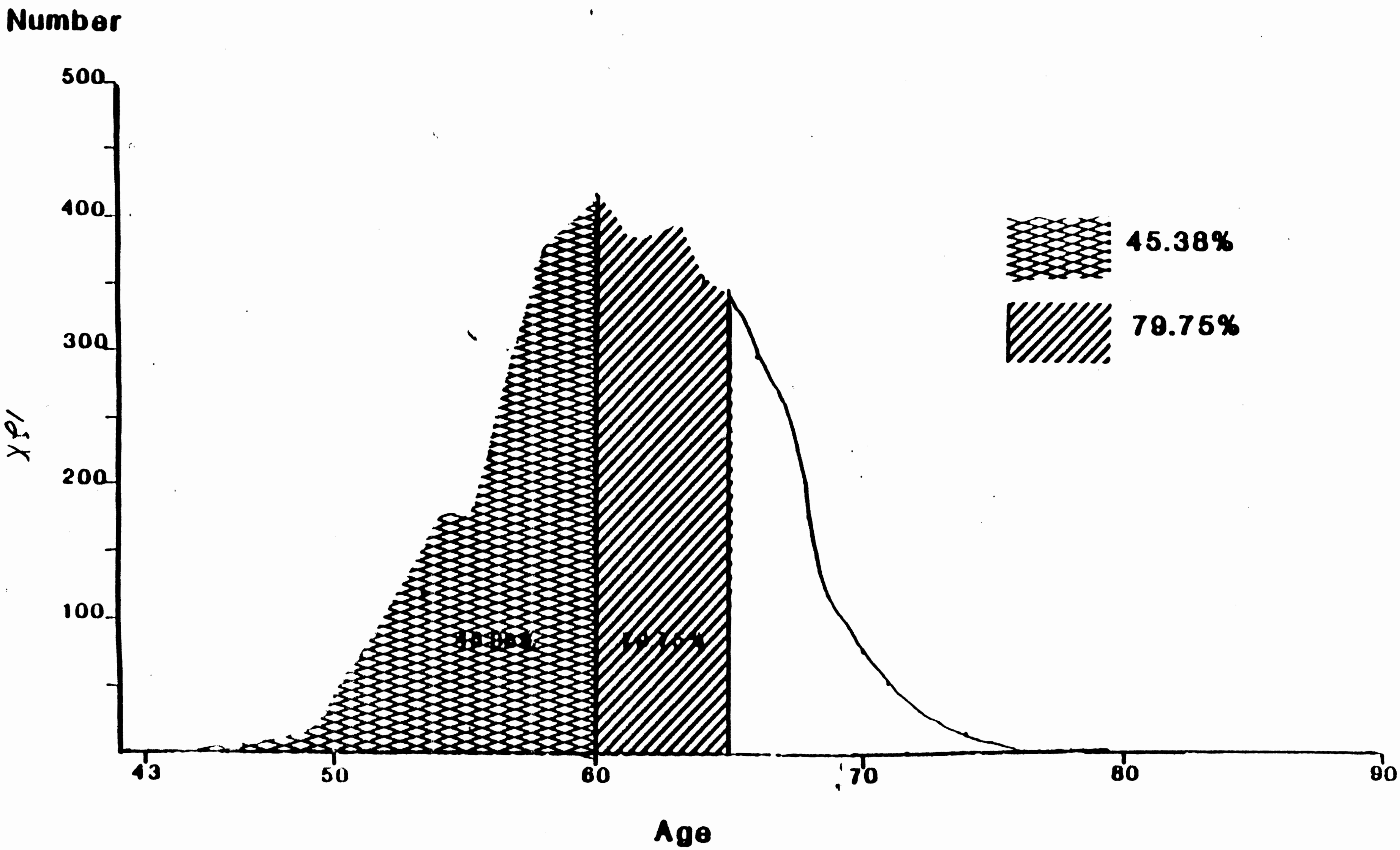


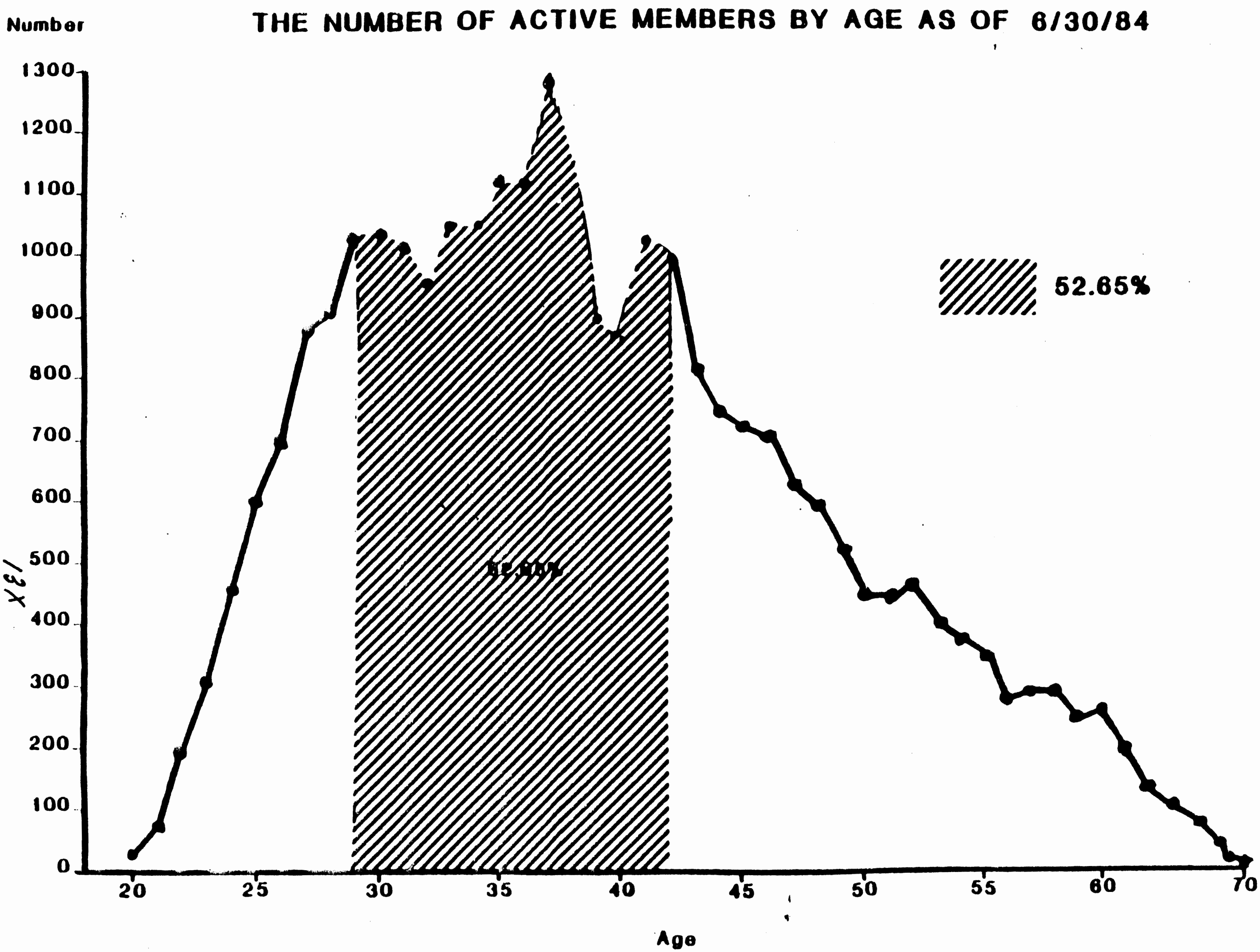
16X


Total Annual Earnings By Age Group
As of June 30, 1987
(Millions)
180-
170-
160-
150-
140-
130-
120-
110-
100-
90-
80-
70-
60-
50-
40-
30-
20-
10-
0-
0-19
20-24
25-29
30-34
35-39
40-44
45-49
50-64
55-59
60-64
65-69
70-74
75 +
Age Group
Total Ann. Earnings

11X

THE NUMBER OF INACTIVE MEMBERS ON THE ROLL BY AGE AS OF 6/30/84





THE NUMBER OF ACTIVE MEMBERS BY AGE AS OF 6/30/84
Number
1300
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
20
25
30
35
40
45
50
55
60
70
Age
52.65%

13X

M E M O R A N D U M

February 24, 1989

TO: William Dressel, N.J. State League of Municipalities

FROM: L. Mason Neely, Finance Director

RE: Pension Reversion

According to reports from Washington the tug of war with regards to pensions on a national basis is about to heat up. That is because of the question of "pension reversions" which is a controversial practice that works like this. A company needs cash so it determines that it has overfunded its employees defined benefit pension system because of the significant increase in the marketvalue of stocks. That company will then purchase an annuity for all of the workers and retirees who are vested in the pension system and then take the balance of the funds for themselves and begin a new pension system. To date, about two million people have been members of such terminated plans and the Treasury Department declared a six month halt to this practice last fall. But, May 1st the six month moratorium ends. There are a slew of companies that are looking to take advantage in the increase stock market through a quick reversion.

I would suggest the benefits are requested by the PFRS members as a very similar situation. Only instead of the employer receiving any benefit the employees are trying to run off with a $2.7 billion dollar benefit or with a first year cost of $21 million dollars. The reason that the PFRS system is so well funded right now is because of the fact that the pension system was forced to divest of South African holdings and take significant capital gains. Recall the system uses a book value accounting system and when they sold stocks the market value was much higher than the book value and therefore the system reaped great profits. That resulted in the system appearing richer and therefore the employees are trying to grab that money rather than letting the taxpayers reap the benefit.

The tax dollar can only be stretched so far and this concept of providing an enhanced benefit to what is already the most lucrative and costly local government pension system must be halted.

Teachers Pension and Annuity - Reform

You will recall that last year the legislature passed and the Governor signed legislation that provided enhanced benefits to members of the Teachers Pension and Annuity Fund. Those benefits were employer paid medical coverage after 25 years of year and along with that benefit, they restructured the accrued liabilities and rolled into the program the cost of living liabilities. In doing that, they also artificially changed the formula by going to an assumed interest rate of 7.0% and stretching the liabilities out over a period of 30 years. This gimmick did not save any money, but simply listed all the liabilities and started a payment plan that would result in

COLA being part of the regular pension contributions. Because the State pays 100% of these pension costs there was no question raised by the League as to the appropriateness of the legislation and in fact we support as we do with all pension systems the commencement of an actuarially sound funding system for COLA.

The point I want to raise is the TPAF legislation carried an effective date of April 1987 even though it was not signed into law until January 1988. With the signing of the law, the TPAF pension fund was required to rebate to the general treasury $118 million dollars. This $118 million dollars was just realized in January of 1989. It required some selling of investments. If that $118 million dollars had stayed with the system, it would have gone a long way towards prefunding the accumulated COLA liabilities. Instead it comes back to the general treasury to allow the Governor another chance at spending those funds and then at some future date your children and mine will be responsible to make the rest of the accrued liability payments through State taxes. This idea of shifting costs that are due today onto the next generation is something that must be dealt with. This is the backbone of what is happening with the Police and Fire Retirement System. How can one cut through all the rhetoric to bring some reasonable thinking to the legislature?

Respectfully,

L. Mason Neely
Chairman, League Pension Study
Commission

LMN/np
workid2/20
cc: File

State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS
20 WEST FRONT STREET
CN 295
TRENTON, NEW JERSEY 08625-0295

FEATHER O'CONNOR
STATE TREASURER

DOUGLAS R. FORRESTER
DIRECTOR
(609) 292-3463

MEMORANDUM

TO: ASSEMBLY STATE GOVERNMENT COMMITTEE

FROM: CAROLYN E. BRONSON
LEGISLATIVE LIASION

RE: A-3421 PASCRELL/S-2602 RUSSO

DATE: FEBRUARY 17, 1989

During the February 9th public hearing on the above referenced legislation, information was presented to your committee which identified the State's rate of return on its investments during 1987 and 1988 as being in the 6 to 7 % range. For your use I have enclosed the State Investment Council's Annual Report for the State of New Jersey Cash Management Fund (green book). The figures presented to you on February 9th were from page 6 of this report. That is, the rates of return quoted to you were from the Cash Management Fund only. This fund is the "checking account" for the State's pension funds and contains only approximately 5 % of the total assets of the State's seven pension systems. It is cash which has just been received (employee or employer contributions) and awaiting longer term investment, or cash accumulated in anticipation of distribution to retirees. By definition, the CMF invests in short term financial instruments, and will therefore normally receive a lower interest rate than like securities of a longer maturity.

In order to put the pension portion of the Cash Management Fund (the green book) in perspective, I have also enclosed for you a 1988 Report of the State Investment Council (aqua book). Page 8 of the Investment Report explains the effective rates of return for the State's seven pensions systems. The effective rate of the pension fund is the "cash return" on all the investments the fund holds, as a percentage of the "book value" of those investments. In other words, we add up all the dividends we receive on our equity or stock investments, add the interest received on our bonds, mortgages, and short term money market instruments, and divide that total by the book value of all the securities. (the book value is generally the price paid for the security). That is then the effective rate on the pension fund. As measured at the end of the last five fiscal years, the PFRS effective rate has fluctuated from a high of approximately 8.7% to a low of approximately 7%. As of January 1989, the rate is 7.2% and trending upward.

The effective rate is a very conservative proxy for the rate of return on the portfolio as a whole, since it does not take into account market appreciation. When the State's portfolio was all invested in bonds, then it made perfect sense not to count market appreciation. But now that stocks make up close to 40% of our portfolio, the effective rate, as currently calculated does not reward us for precisely the reason we invest in stocks - capital appreciation.

The law prohibits the Treasurer from setting the regular interest rate at a level over 105% of the effective rate. The proposed PFRS new interest rate of 7% falls within the allowable range. Because it is a conservative proxy and because for the first time, all of the liabilities of the PFRS will be "on the books" and so the Treasurer feels that the assumed or regular rate can be set at a level much closer to the effective rate than has been set in the past.

Also enclosed for your information is a 1987 Annual Report from the Division of Pensions.

If there is any further information I can provide you with, please do not hesitate to call upon me at (609) 292-3613.

mb
enclosures

c: Douglas R. Forrester
Donald S. Margeson
Glen Beebe
Al Harris

New Jersey
Business & Industry
Association

102 West State Street • Trenton, New Jersey 08608-1102 • 609-393-7707

STATEMENT

OF THE

NEW JERSEY BUSINESS AND INDUSTRY ASSOCIATION

TO THE

NEW JERSEY GENERAL ASSEMBLY
STATE GOVERNMENT COMMITTEE

ON

SENATE BILL 2602
AND
ASSEMBLY BILL 3421

"An Act Amending the Police and Firemens' Retirement System"

February, 1989

New Jersey Business and Industry Association, the largest Association of Employers in the State, representing a significant segment of the taxpaying public -- the business community -- takes this opportunity to convey its concerns for the impact that S-2602 (Russo) and A-3421 (Pascrell) will have on local property taxes and taxpayers.

NJBIA has analyzed this legislative proposal from the standpoint of how it is viewed from a business prospective -- how business would respond to a similar proposal during collective bargaining. On the basis of cost alone, it would be rejected on its face.

Pension benefits for those fortunate enough to be enrolled in the PFRS are already generous. They exceed in generosity virtually most all other pension benefit programs, private or public.

For example, PFRS members can now retire after 25 years of service, regardless of age (actually they must be 43 years old) and begin collecting full pension benefits without an actuarial reduction in benefits!

PFRS members can replace 60% of their highest years salary wages after 25 years of service. This is virtually unheard of in the private sector. S-2602/A-3421 would increase this benefit to 65 percent of a member's wages. There is no actuarial reduction for retiring before age 60. Also, these benefits are subject to an annual cost of living adjustment. Add Social Security benefits and a PFRS member can replace 100% of his wages -- more than 100% if benefits from a second pension are included! It is significant to note that 68% of PFRS retirees who leave their job for a second career are between the ages of 43 and 47.

Increasing retirement benefits for a group of police and firemen will impose a significant cost on municipalities which will have no other alternative but to increase local property taxes in order to meet their financial obligations. NJBIA submits that it is irresponsible for the state to force an increase in local property taxes at a time when taxpayers are urging a reduction and reform of local property taxes. We also caution the Legislature not to view this issue in a vacuum; several other groups of municipal employees are waiting to climb upon the pension enhancement bandwagon.

Specific provisions of S-2602/A-3421 deserve comment. Both bills propose to pre-fund cost-of-living adjustments (COLA). This is funded in part by increasing assumed or estimated future interest rates on investment earnings from 6.75% to 7.0%. While this provision will not bring additional dollars into PFRS, it could be a vehicle to fund COLA instead of using the present pay-as-you-go basis for funding this benefit. NJBIA submits, however, that it would be irresponsible to rely on these estimates of increased earnings to fund a benefit enhancement.

The bills also restore the original definition of "policemen" and "firemen" to the law. The proposed definition appears to restrict eligibility for PFRS retirement benefits to individuals who meet the new test, to the exclusion of others. All current members of PFRS would be grandfathered. This provision would not reduce fund costs to the local taxpayers because all additional occupational classifications added to PFRS, over the years, were state employees. Only the state would benefit from this provision.

In addition, S-2602 and A-3421 proposes to refinance accrued liabilities of the fund in addition to increasing the estimated earnings of the fund. This will not add one new dollar into the fund to pay for the benefit enhancement. In effect, this will lower current municipal contributions, but increase the length of time that municipalities will have to satisfy accrued liabilities. It shifts the cost into the future.

If this proposal for a benefit improvement were a subject for private sector collective bargaining it would probably be resolved with a reasonable counter-proposal such as:

a) Increase employee contributions to off set the full cost of this benefit improvement and/or
b) Provide for an actuarial reduction in benefits paid prior to 60 years of age.

In sum:

1. NJBIA could support pre-funding the COLA by assuming a higher yield on investments in the fund;
2. Benefits should not be increased from 60% to 65% maximum unless there is an increase in employee contributions to pay for this increase and there is an actuarial reduction in benefits for retirement prior to age 60;
3. Restricting eligibility for future PFRS enrollment is probably a good idea.

We respectfully suggest that S-2602/A-3421 be rejected unless the bills are amended to delete the proposed increase in maximum benefits.

Employee Benefits in State and Local Governments, 1987

U.S. Department of Labor
Ann McLaughlin, Secretary

Bureau of Labor Statistics
Janet L. Norwood, Commissioner
May 1988

Bulletin 2309

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Table 1. Summary: Percent of full-time employees by participation[1] in employee benefit programs, State and local governments,[2] 1987

Employee benefit program	All employees[3]	Regular employees[3]	Teachers[3]	Police and firefighters[3]
Paid:				
Holidays	81	95	45	93
Vacations	72	93	13	100
Personal leave	38	32	56	36
Lunch period[4]	17	10	32	39
Rest time[4]	58	74	16	48
Funeral leave	56	56	52	75
Jury-duty leave	98	99	97	92
Military leave	80	85	65	86
Sick leave	97	97	95	97
Sickness and accident insurance	14	18	5	14
Wholly employer financed	12	15	4	11
Partly employer financed	2	3	1	3
Long-term disability insurance	31	28	41	18
Wholly employer financed	28	25	38	15
Partly employer financed	3	3	3	3
Health care	94	94	95	96
Medical insurance	93	93	93	95
Employee coverage:				
Wholly employer financed	60	59	61	70
Partly employer financed	33	34	32	25
Family coverage:				
Wholly employer financed	27	25	27	37
Partly employer financed	66	68	65	58
Dental insurance	59	58	61	59
Employee coverage:				
Wholly employer financed	38	37	40	43
Partly employer financed	21	21	21	15
Family coverage:				
Wholly employer financed	19	18	20	25
Partly employer financed	39	39	40	33
Life insurance	85	85	82	91
Wholly employer financed	69	70	66	73
Partly employer financed	16	16	16	18
Defined benefit pension	93	92	95	93
Wholly employer financed	20	22	17	17
Partly employer financed	73	70	78	76
Defined contribution[5]	9	9	8	13
Retirement	9	9	8	12
Wholly employer financed[6]	4	4	5	4
Partly employer financed	4	5	3	8
Capital accumulation[7]	(8)	(8)	(8)	(8)
Partly employer financed	(8)	(8)	(8)	(8)
All retirement	98	97	99	98

[1] Participants are workers covered by a paid time off, insurance, retirement, or capital accumulation plan. Employees subject to a minimum service requirement before they are eligible for benefit coverage are counted as participants even if they have not met the requirement at the time of the survey. If employees are required to pay part of the cost of a benefit, only those who elect the coverage and pay their share are counted as participants. Benefits for which the employee must pay the full premium are outside the scope of the survey. Only current employees are counted as participants; retirees are excluded.

[2] See appendix A for scope of study.

[3] See appendix A for definitions of the occupational groups.

[4] Data for teachers relate only to primary and secondary school teachers. Paid lunch and rest time for teachers in colleges and universities were not surveyed because of difficulties in defining and measuring work time for these employees.

[5] Defined contribution plans include money purchase pension and savings and thrift plans. Savings and thrift plans were counted as retirement plans if employer contributions must remain in the participant's account until retirement age, death, disability, separation from service, age 59 1/2, or hardship.

[6] Employees participating in two or more plans are counted as participants in wholly employer-financed plans only if all plans are noncontributory.

[7] Includes plans in which employer contributions may be withdrawn from participant's account prior to retirement age, death, disability, separation from service, age 59 1/2, or hardship.

[8] Less than 0.5 percent.

NOTE: Because of rounding, sums of individual items may not equal totals.

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Table 62. Defined benefit pension plans:[1] Average replacement rates for specified final earnings and years of service,[2] State and local governments, 1987

Final annual earnings	Years of service[3] 10	15	20	25	30	35	40
	Pension only—all participants						
All participants							
$15,000	17.3	26.1	34.9	43.4	51.6	59.0	65.7
$25,000	17.4	26.2	35.0	43.6	52.0	59.3	66.2
$35,000	17.4	26.3	35.1	43.8	52.2	59.7	66.6
Regular participants							
$15,000	17.0	25.6	34.3	42.8	51.0	58.3	65.2
$25,000	17.1	25.8	34.5	43.1	51.5	58.9	65.8
$35,000	17.2	25.9	34.7	43.3	51.8	59.3	66.3
Teachers							
$15,000	17.2	25.9	34.5	43.0	51.1	58.9	66.1
$25,000	17.2	25.9	34.5	43.0	51.3	59.0	66.2
$35,000	17.2	25.8	34.5	43.0	51.4	59.2	66.4
Police and firefighters							
$15,000	21.4	31.7	42.3	51.6	59.8	65.3	69.4
$25,000	21.0	31.7	42.4	51.7	59.9	65.3	69.4
$35,000	21.1	31.7	42.4	51.7	60.0	65.4	69.5
	Combined pension and primary[4] Social Security benefit—all participants[5]						
All participants							
$15,000	48.3	57.1	65.8	74.4	82.6	89.9	96.7
$25,000	42.8	51.6	60.4	69.0	77.4	84.8	91.6
$35,000	36.6	45.4	54.3	62.9	71.4	78.9	85.8
Regular participants							
$15,000	50.1	58.7	67.4	75.9	84.1	91.4	98.3
$25,000	44.2	53.0	61.7	70.3	78.6	86.1	93.0
$35,000	37.7	46.4	55.2	63.8	72.4	79.8	86.9
Teachers							
$15,000	44.6	53.3	61.9	70.3	78.5	86.2	93.4
$25,000	39.6	48.3	56.9	65.4	73.7	81.4	88.6
$35,000	34.1	42.7	51.4	59.9	68.4	76.2	83.3
Police and firefighters							
$15,000	47.2	57.5	68.1	77.3	85.5	91.0	95.1
$25,000	42.2	52.8	63.5	72.8	81.0	86.4	90.5
$35,000	37.0	47.6	58.4	67.6	75.9	81.4	85.5

[1] Excludes supplemental pension plans.

[2] Retirement annuity as a percent of earnings in the final year of work. The maximum pension available to an employee, not reduced for early retirement or joint-and-survivor annuity, was calculated under each pension plan using the earnings and service assumptions shown. This benefit level was then expressed as a percent of earnings in the last year of employment.

These calculations assume employees retired on January 1, 1987, and final earnings are for 1986. Earnings histories, necessary for applying the pension formulas, were constructed for each final earnings level based on data provided by the Social Security Administration.

For pension formulas that are integrated with Social Security (see table 60) and for computation of Social Security benefits, the worker is assumed to have retired at age 65 and paid into Social Security for 40 years. Computations exclude formulas based on career contributions.

[3] The years of service intervals represent total service with the employer. Time spent satisfying service requirements for plan participation was excluded from the calculation of replacement rates, unless the pension plan specified that such time was to be included in benefit computations.

[4] Excludes benefits for spouses and other dependents.

[5] Includes participants in government units not participating in Social Security; table reflects only employer-sponsored pension benefits for these employees.

Table 63. Defined benefit pension plans:[1] Average replacement rates for specified final earnings and years of service,[2] by participation status in Social Security, State and local governments, 1987

Final annual earnings	Years of service[3] 10	15	20	25	30	35	40
	Pension only—participants with Social Security[4]						
All participants							
$15,000	16.0	24.2	32.3	40.2	47.7	54.6	61.2
$25,000	16.1	24.3	32.5	40.5	48.2	55.2	61.8
$35,000	16.2	24.4	32.7	40.7	48.6	55.7	62.3
Regular participants							
$15,000	15.8	23.9	32.0	40.0	47.5	54.4	61.1
$25,000	15.9	24.1	32.3	40.4	48.2	55.2	62.0
$35,000	16.1	24.2	32.5	40.6	48.6	55.8	62.3
Teachers							
$15,000	15.9	23.9	31.8	39.4	46.8	53.9	60.5
$25,000	15.8	23.8	31.7	39.5	47.0	54.0	60.6
$35,000	15.8	23.8	31.7	39.5	47.3	54.4	60.1
Police and firefighters							
$15,000	19.4	29.2	39.1	47.2	54.4	59.9	64.5
$25,000	19.4	29.3	39.2	47.3	54.6	60.0	64.6
$35,000	19.5	29.3	39.2	47.5	54.8	60.2	64.8
	Pension plus primary Social Security[4]—participants with Social Security						
All participants							
$15,000	59.0	67.1	75.2	83.2	90.7	97.6	104.1
$25,000	51.3	59.5	67.8	75.8	83.5	90.4	97.0
$35,000	42.8	51.0	59.3	67.3	75.3	82.3	88.9
Regular participants							
$15,000	58.7	66.8	74.9	82.9	90.5	97.4	104.1
$25,000	51.2	59.3	67.5	75.6	83.4	90.5	97.2
$35,000	42.7	50.9	59.1	67.2	75.3	82.4	89.2
Teachers							
$15,000	58.9	66.9	74.7	82.4	89.8	96.9	103.5
$25,000	51.1	59.0	67.0	74.7	82.2	89.3	95.9
$35,000	42.4	50.4	58.3	66.1	73.9	81.0	87.6
Police and firefighters							
$15,000	62.3	72.2	82.1	90.2	97.4	102.9	107.5
$25,000	54.7	64.5	74.4	82.6	89.9	95.3	99.9
$35,000	46.1	55.9	65.9	74.1	81.4	86.8	91.4
	Pension only—participants not covered under Social Security						
All participants							
$15,000	20.7	31.1	41.6	51.7	61.6	70.1	77.6
$25,000	20.6	31.1	41.5	51.6	61.6	70.1	77.6
$35,000	20.6	31.1	41.5	51.6	61.6	70.1	77.6
Regular participants							
$15,000	20.9	31.5	42.1	52.3	62.6	71.2	78.7
$25,000	20.9	31.5	42.0	52.3	62.5	71.2	78.7
$35,000	20.9	31.5	42.0	52.3	62.5	71.2	78.8

See footnotes at end of table.

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Table 63. Defined benefit pension plans:[1] Average replacement rates for specified final earnings and years of service,[2] by participation status in Social Security, State and local governments, 1987—Continued

Final annual earnings	Years of service[3]						
	10	15	20	25	30	35	40
	Pension only—participants not covered under Social Security						
Teachers							
$15,000	19.5	29.5	39.4	49.1	58.7	67.7	75.9
$25,000	19.5	29.5	39.3	49.0	58.8	67.7	76.0
$35,000	19.5	29.4	39.3	49.0	58.7	67.7	76.0
Police and firefighters							
$15,000	24.4	35.4	47.2	58.1	67.7	73.2	76.6
$25,000	23.4	35.3	47.2	58.1	67.7	73.2	76.6
$35,000	23.4	35.3	47.2	58.1	67.7	73.2	76.5

[1] Excludes supplemental pension plans.

[2] Retirement annuity as a percent of earnings in the final year of work. The maximum pension available to an employee, not reduced for early retirement or joint-and-survivor annuity, was calculated under each pension plan using the earnings and service assumptions shown. This benefit level was then expressed as a percent of earnings in the last year of employment.

These calculations assume employees retired on January 1, 1987, and final earnings are for 1986. Earnings histories, necessary for applying the pension formulas, were constructed for each final earnings level based on data provided by the Social Security Administration.

For pension formulas that are integrated with Social Security (see table 60) and for computation of Social Security benefits, the worker is assumed to have retired at age 65 and paid into Social Security for 40 years. Computations exclude formulas based on career contributions.

[3] The years of service intervals represent total service with the employer. Time spent satisfying service requirements for plan participation was excluded from the calculation of replacement rates, unless the pension plan specified that such time was to be included in benefit computations.

[4] Excludes benefits for spouses and other dependents.

Table 64. Defined benefit pension plans:[1] Percent of full-time participants by minimum age and associated service requirements for normal retirement,[2] State and local governments, 1987

Age and service requirement[3]	All participants	Regular participants	Teachers	Police and firefighters
Total	100	100	100	100
No age requirement	38	35	45	36
16 or 20 years' service	2	1	1	19
25 or 27 years' service	2	2	1	4
30 years' service	26	26	29	11
31-34 years' service	1	1	-	(4)
35 years' service	6	4	12	1
More than 35 years' service	1	(4)	1	(4)
Less than age 50	(4)	(4)	-	2
No service requirement	(4)	-	-	2
20 years' service	(4)	(4)	-	(4)
Age 50	1	(4)	-	15
5 years' service	(4)	-	-	1
10 years' service	(4)	-	-	(4)
20 years' service	1	(4)	-	10
25 years' service	(4)	(4)	-	3
30 years' service	(4)	(4)	-	1
Age 51-54	(4)	(4)	-	6
No service requirement	(4)	-	-	(4)
20 years' service	(4)	-	-	(4)
25 years' service	(4)	-	-	5
30 years' service	(4)	(4)	-	-
Age 55	22	23	18	25
No service requirement	2	2	-	6
1-4 years' service	(4)	(4)	-	-
5 years' service	1	(4)	(4)	9
10 years' service	(4)	(4)	-	2
20 years' service	(4)	(4)	(4)	1
21-24 years' service	(4)	-	-	1
25 years' service	4	5	3	2
30 years' service	11	12	11	2
More than 30 years' service	3	2	4	1

Age and service requirement[3]	All participants	Regular participants	Teachers	Police and firefighters
Age 56-59	(4)	(4)	-	3
5 years' service	(4)	(4)	-	3
Age 60	7	4	13	3
No service requirement	1	(4)	1	1
1-5 years' service	5	2	10	1
6-9 years' service	(4)	(4)	-	(4)
10 years' service	(4)	(4)	-	1
15 or 20 years' service	(4)	(4)	-	-
25 years' service	1	1	2	-
30 years' service	(4)	(4)	-	1
Age 62	11	13	7	6
No service requirement	(4)	(4)	-	-
5 years' service	1	1	-	1
10 years' service	3	5	(4)	(4)
15 or 20 years' service	(4)	(4)	-	-
25 years' service	1	1	-	-
30 years' service	6	6	7	5
Age 63-64	5	7	1	1
No service requirement	(4)	(4)	1	-
5 years' service	5	7	(4)	1
Age 65	8	10	4	1
No service requirement	1	1	-	1
1-4 years' service	(4)	(4)	-	-
5 years' service	1	1	1	-
10 years' service	5	6	4	(4)
15 years' service	(4)	(4)	-	-
Sum of age plus service[5]	8	8	11	3
Equals less than 80	(4)	(4)	(4)	-
Equals 80	2	2	2	1
Equals 85-89	(4)	(4)	-	-
Equals 90	1	1	1	1
Equals 95	4	3	8	(4)

[1] Excludes supplemental pension plans.

[2] Normal retirement is defined as the point at which the participant could retire and immediately receive all accrued benefits by virtue of service and earnings, without reduction due to age.

[3] If a plan had alternative age and service requirements, the earliest age and associated service were tabulated; if one alternative did not specify an age, it was the requirement tabulated.

[4] Less than 0.5 percent.

[5] In some plans, participants must also satisfy a minimum age or service requirement.

NOTE: Because of rounding, sums of individual items may not equal totals. Dash indicates no employees in this category.