INTERIM REPORT OF COMMITTEE

BY

N. J. Governor's Committee on Inadequate Pensions

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20 West Front Street
Trenton, New Jersey
November 28, 1956

TO: The Members of the Legislature of New Jersey

FROM: George S. Pfaus, Secretary,
N. J. Governor's Committee on Inadequate Pensions

SUBJECT: Interim Report of Committee

Upon direction of Governor Robert B. Meyner, I have the honor to transmit to you the attached copy of the Interim Report of the Governor's Committee on Inadequate Pensions.

The members of the committee are as follows;

Carl Holderman, Commissioner of Labor and Industry, Chairman;

George M. Borden, Secretary, Public Employees' Retirement System;

Howard J. Devaney, Regional Director, National Council of Christians and Jews, and former President, Patrolmen's Benevolent Association;

M. Joseph Duffy, County Clerk of Middlesex County;

Harry Jones, Vice President, Mutual Benefit Life Insurance Co.;

William F. Kelly, Jr., President of Civil Service Commission;

James A. McFadden, Comptroller, David Sarnoff Laboratories;

Frederick M. Raubinger, Commissioner of Education;

Harry Reichenstein, City Clerk of Newark;

Bernard Rifkin, International Representative, United Automobile Workers, AFL-CIO;

Steven E. Schanes, Director, Bureau of Public Employees' Pensions;

John W. Tramburg, Commissioner of Institutions and Agencies;

George S. Pfaus, Confidential Secretary to Commissioner Holderman, Secretary.

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Respectfully,

George S. Pfaus

George S. Pfaus, Secretary

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20 West Front Street
Trenton, New Jersey
November 9, 1956

Hon. Robert B. Meyner
State House
Trenton, New Jersey

Dear Governor Meyner:

On April 2, 1956 you appointed a committee to study the subject of pensions payable to retired state, county and municipal employees which, by reason of the change in the cost-of-living since they retired "are wholly inadequate to meet current living standards and costs". It has been designated the Governor's Committee on Inadequate Pensions.

This committee has held three meetings and some exploratory work has been done by a sub-committee under special instruction. We are pleased to present this interim report to you to show the direction of thinking of the committee, together with some of the facts it has discovered, and to obtain from you, either by conference or otherwise, such further instruction as this information will promote.

These are the premises which the committee has adopted and the facts that have been developed in connection therewith:

(1) The committee is concerned only with those persons who are, in fact, pensioned. If no pension plan was in effect at the time an individual retired, the committee is not expected to rewrite the work contract as it then existed and create pensions where there had been no provision for any.

(2) The committee is concerned only with "former state, county and municipal employees, who retired after years of faithful service". It, therefore, has not considered that its problem includes a considerable number of persons who are beneficiaries (widows, children and others) of former employees.

(3) The committee has observed that the pensioners under consideration generally have not had the benefit of Social Security coverage, the payments under which have been increased a few times since 1937 to meet exactly this kind of situation. (We say that they "generally" have not had this coverage because there are some who have had it; early retirement privileges under some of our pension plans have enabled some to retire at an age when they could still obtain other employment under Social Security. Some of our pensioners may, in fact, still be working for other employers.)

(4) The committee understands that the problem should be handled in an over-all fashion, and should not be dealt with on an individual basis akin to old age assistance with a means test and investigation of individual cases. This, of course, precludes any attempt to discover in individual cases whether they are working elsewhere, are in receipt of Social Security, have earned a pension elsewhere, or have private means.

(5) Any plan that is suggested by the committee must stand the test of reasonableness as to the State's ability to pay and as to the possibility of adoption.

After careful consideration of these and other aspects of the problem, your committee concluded that its primary concern was with those on whom the impact of the increase in the cost of living was greatest, namely those who had retired on small pensions. Small pensions, however, can come about by reason of a low salary scale as a base for pension or by reason of a short term of service. It does not appear logical to allow the same adjustment to two pensioners drawing the same low pension if one came about by reason of maximum service under a low salary scale while the other resulted from short service under a more favorable salary scale. However, a sharp cut-off point in the period of service that would be recognized would mean that persons on one side of that point would receive no benefit while those close on the other side would have a sizeable benefit. Consequently, your committee feels that a certain period of years of service should be fixed to merit the full amount of any adjustment granted, and terms of service shorter than this fixed period should receive only pro rata adjustment, such scaling down being preferable to an abrupt cut-off.

Your committee has also considered the relative position of pensioners who contributed and those who did not contribute to the benefits now being paid to them. In its desire to cut across detail and reach a practical answer, the committee has concluded that this feature of pension plans can be ignored. There are several reasons for this conclusion. (a) Most if not all of these old contributory plans provided for other collateral benefits (death, disability) in addition to the employee's pension. These were quite valuable benefits which were worth a very large share, if not all, of the employee's contribution, so that his contribution to pension is no more than nominal. (b) If a careful analysis of contributions is to be made, it will involve each pension plan separately and the relative statistics as to death and other benefits running back over 40 years. (c) The whole subject would be badly confused by the amount of non-contributory deficit-financing since found to be necessary. In concluding that contributions should be ignored, your committee is conscious that a cost-of-living adjustment would, in effect, be guaranteeing the purchasing power of the employee's own savings in the plan, a benefit enjoyed by no other taxpayer. Also, your committee is aware that some plans have permitted voluntary extra contributions by the employee to increase his retirement benefit.

Such details could not be ignored if the possible adjustment were substantial; your committee is presently of the opinion, however, that the area of any possible adjustment to be recommended will be sufficiently modest so that it can be regarded as being independent of that portion of the benefit that was purchased by the employee.

Out of the foregoing basic considerations, your committee has evolved the thought that only the first "x" dollars of pension should be subject to any adjustment, and that the adjustment so determined should be allowed in full only if at least "y" years of service had been rendered; for less than "y" years of service the adjustment should be pro-rated. This kind of adjustment obviously favors the lower-paid persons who have become the lower-paid pensioners, and conforms to the trend in recent years of salary adjustments among the working public generally.

Without knowing what cost might be involved in its choice of "x" dollars of pension to be adjusted, or "y" years of service for full credit, your committee, nevertheless, decided to experiment with various formulas. The amount of pension to be exposed to adjustment varied from $480 annually to $1,200 annually. The number of years for full credit of the adjustment was set at either 25 years or 30 years and the computed adjustment was prorated for shorter terms of service.

The adjustment which the committee seems to favor is based on the broad assumption that current salaries at any time are reflective of the cost-of-living index at that time. This is not literally true, but it is about as good a guide as we have. For each possible year of retirement, the average of the cost-of-living index in the five-year period ending that year was computed. This average reflects the fact that pensions are usually based on some form of final average salary. From these figures it was possible to determine what the percentage increase in the original salary base of the pension should be to correspond to the cost-of-living change. These percentage changes were then also averaged in groups of five retirement years. This last was done solely to minimize subsequent estimating; either these averages or the individual years' figures can be used in the actual adjustment, whichever seems preferable. These average percentage changes were then applied to the actual current pensions as described in the two preceding paragraphs.

Under this approach:

Pensioners Retiring in Years	Would get an Additional Payment of	For which the Maximum based on $480 would be	Which, for 25 Years' Service means, per year
Prior to 1920	140%	$672	$26.88
1920 - 1924	57	274	10.96
1925 - 1929	53	254	10.16
1930 - 1934	68	326	13.04
1935 - 1939	93	446	17.84
1940 - 1944	80	384	15.36
1945 - 1949	41	197	7.88

These percentages may need some explanation. The post war (World War I) increase in the cost-of-living index (with its assumed effect on salaries) causes the percentages of the 1920's to be somewhat lower than

others. Behind these percentages, of course, is the process of averaging for five years prior to retirement. Thus, some of the influence of the late 1920's is present in the percentage shown for 1930 - 1934. The worst part of the depression, 1933-4, has little effect on the percentage shown for that period, but has marked effect on the percentage for 1935 - 1939. People retiring in those years, of course, received pensions that reflected the salary cuts they received during the depression.

The various combinations of "x" dollars and "y" years (six combinations in all) were then applied to all present pensioners in three systems, namely, Teachers, Police and Fire Consolidated, and State Employees (including other than State Employees covered by that system). These three systems are belived to cover 90% of the total problem, and, if the figures applicable to them are raised by about 10%, the result will be an estimate of the total amount involved. Cards showing the details for each pensioner in the three systems were prepared and the results under six different possible adjustments were computed and summarized. In the table below, the results are summarized to show:

"x", the dollars of present pension on which the adjustment was computed.

"y", the number of years of service required for full credit shorter terms being pro-rated.

Present Pension, the actual pension being paid now.

Adjustment, the computed adjustment related to "x" and "y".

Present Value, the implied funding required to set up this adjustment on a 3% expected lifetime basis.

"x"	"y"	Present Pension	Adjustment	Present Value
$ 600	25 years	$8,214,000	$1,919,000	$16,000,000
600	30 "	8,214,000	1,852,000	15,500,000
480	25 "	8,214,000	1,544,000	12,900,000
900	25 "	8,214,000	2,826,000	23,700,000
900	30 "	8,214,000	2,734,000	22,800,000
1,200	30 "	8,214,000	3,528,000	29,500,000

Schedules giving more detailed figures for each of the six plans are attached. These schedules will show no adjustment for persons retiring since 1949. The average adjustment factor for persons retiring in 1950 to 1954 would have been only 8%, and your committee believes that such a low figure should not be recognized; many salaried workers absorb that much without comment. In limiting the proposal to persons retiring prior to 1950, nearly half the existing pensioners, over 5,000 of them, were omitted. This has had marked effect in controlling the total cost even though the adjustment in any individual case would have been quite small.

At this point your committee looks for further instructions. It has no idea what amount might reasonably be absorbed in the State's annual budget to cover this proposal, but it should be pointed out that if any one of these formulas should be adopted (or any one aimed at the same objective) the first year's cost would be the greatest; deaths among pensioners will

assure steady annual reduction in the cost, although some cost would still remain even 30 years hence.

Lacking the knowledge necessary to determine what the State might properly absorb, your committee is disposed toward the formula that is based on the first $480.00 of pension and 25 years of service. This involves an initial annual cost of over $1,500,000 on the pension systems tested, and the inclusion of other State law plans will raise this figure to about $1,700,000. Even so, this plan of adjustment, the lowest of all six, is perhaps as low as anything that could attract favorable support. Short of this, the project might better be abandoned.

There comes next the question of financing this cost. The committee at this point shows no disposition to suggest that additional pension payments be funded, and the fact that we have computed the present value required for any funding is not to be interpreted as indicating otherwise. There is always the possibility that the trend of the cost-of-living may be reversed, in which case the State may wish to review its position, and pensioners, meanwhile, should not be led to believe that the additional payments are vested.

Some consideration, however, will have to be given to the manner of meeting the cost even on a year to year basis. Some of the existing pensions are being paid for wholly by the State; others are paid for wholly by the municipality. Not all municipalities have adopted pension plans even under the permissive legislation that has existed. If the State were to bear all of the cost of the additional payments, it seems clear that taxpayers in municipalities which have refrained from adopting plans will be helping to pay the cost of additional pensions to the former employees of municipalities that did adopt plans. These taxpayers, of course, are already paying locally for the cost of a compensation package that has been put together without including a pension program.

There also exist some plans that are not a part of any State program which were adopted by counties and municipalities under permissive legislation for which any favorable action by the State in increasing pension payments will carry strong implications. Since the adoption of these plans in the first place was permissive, it does not seem appropriate to force these political units to take action parallel to the State. Probably the proper solution would be in the form of legislation permissive in form which would merely make it possible for them to take parallel action. This, of course, would create a distinction between municipalities who operate their own plans and those who have employees in State plans in that it would be permissive for one group and mandatory for the other. It should also be recognized that one municipality may have one class of employee under a local plan and another class under a State plan.

In view of the many ramifications that are involved, your committee respectfully suggests that the facts that it has developed thus far should be submitted to you and that a conference with you be arranged, at your convenience, in which the subject can be discussed and further instructions obtained.

Sincerely yours,

Governor's Committee on
Inadequate Pensions

Carl Holderman, Chairman
George M. Borden
Howard J. Devaney
M. Joseph Duffy
Harry Jones
William F. Kelly, Jr.
James A. McFadden
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George S. Pfaus, Secretary

By: George S. Pfaus
George S. Pfaus
Secretary

S SYSTEM 1 TEACHERS, 5 POLICE & FIRE, 7 PUBLIC EMPLOYEES

B BASIS OF TEST 1 $600.00 25 YRS.

S	B	YEAR OF RETIREMENT	NUMBER OF PENSIONERS	PRESENT PENSION	INCREASE ON TEST BASIS	VALUE OF INCREASE
1	1	1920-1924	22	16,673	6,346	31,409
1	1	1925-1929	79	87,719	23,874	121,064
1	1	1930-1934	325	493,515	128,668	714,104
1	1	1935-1939	421	609,443	216,039	1,467,129
1	1	1940-1944	818	1,312,175	359,138	2,863,104
1	1	1945-1949	1,268	2,097,297	288,194	2,714,583
		TOTAL	2,933	4,616,822	1,022,259	7,911,393
5	1	1911-1919	10	7,680	6,384	39,114
5	1	1920-1924	31	32,848	8,958	53,681
5	1	1925-1929	58	75,410	15,015	110,143
5	1	1930-1934	182	256,039	62,031	490,789
5	1	1935-1939	180	242,584	90,127	733,197
5	1	1940-1944	1,003	1,412,199	446,454	4,426,743
5	1	1945-1949	660	1,022,115	146,311	1,535,840
		TOTAL	2,124	3,048,875	775,280	7,389,507
7	1	1925-1929	1	253	86	265
7	1	1930-1934	5	2,930	1,331	5,577
7	1	1935-1939	17	17,246	6,186	31,394
7	1	1940-1944	64	61,474	21,659	123,940
7	1	1945-1949	529	466,578	92,232	616,716
		TOTAL	615	548,481	121,494	777,892
		GRAND TOTAL	5,672	8,214,178	1,919,033	16,078,792

SYSTEM 1 TEACHERS, 5 POLICE & FIRE, 7 PUBLIC EMPLOYEES

BASIS OF TEST 2 $600.00 30 YRS.

	B	YEAR OF RETIREMENT	NUMBER OF PENSIONERS	PRESENT PENSION	INCREASE ON TEST BASIS	VALUE OF INCREASE
.	2	1920-1924	22	16,673	5,994	29,000
.	2	1925-1929	79	87,719	23,193	115,979
.	2	1930-1934	325	493,515	126,606	698,843
.	2	1935-1939	421	609,443	210,790	1,424,424
.	2	1940-1944	818	1,312,175	345,266	2,744,301
.	2	1945-1949	1,268	2,097,297	275,447	2,587,103
		TOTAL	2,933	4,616,822	987,296	7,599,650
5	2	1911-1919	10	7,680	5,880	35,718
5	2	1920-1924	31	32,848	8,550	50,330
5	2	1925-1929	58	75,410	14,151	101,176
5	2	1930-1934	182	256,039	58,956	457,077
5	2	1935-1939	180	242,584	87,878	707,592
5	2	1940-1944	1,003	1,412,199	437,969	4,321,536
5	2	1945-1949	660	1,022,115	142,261	1,481,648
		TOTAL	2,124	3,048,875	755,645	7,155,077
7	2	1925-1929	1	253	71	219
7	2	1930-1934	5	2,930	1,177	4,867
7	2	1935-1939	17	17,246	5,714	28,680
7	2	1940-1944	63	61,474	19,497	111,604
7	2	1945-1949	529	466,578	82,948	554,211
		TOTAL	615	548,481	109,407	699,581
		GRAND TOTAL	5,672	8,214,178	1,852,348	15,454,308

SYSTEM 1 TEACHERS, 5 POLICE & FIRE, 7 PUBLIC EMPLOYEES

BASIS OF TEST 3 $480.00 25 YRS.

YEAR OF RETIREMENT	NUMBER OF PENSIONERS	PRESENT PENSION	INCREASE ON TEST BASIS	VALUE OF INCREASE
1920-1924	22	16,673	5,219	26,280
1925-1929	79	87,719	19,172	97,472
1930-1934	325	493,515	102,903	571,373
1935-1939	421	609,443	173,974	1,183,236
1940-1944	818	1,312,175	289,042	2,305,184
1945-1949	1,268	2,097,297	232,091	2,186,476
TOTAL	2,933	4,616,822	822,401	6,370,021
1911-1919	10	7,680	5,106	31,282
1920-1924	31	32,848	7,174	42,978
1925-1929	58	75,410	11,978	87,825
1930-1934	182	256,039	49,582	392,373
1935-1939	180	242,584	72,103	586,527
1940-1944	1,003	1,412,199	357,238	3,541,980
1945-1949	660	1,022,115	117,098	1,228,950
TOTAL	2,124	3,048,875	620,279	5,911,915
1925-1929	1	253	86	265
1930-1934	5	2,930	1,170	4,901
1935-1939	17	17,246	5,201	26,386
1940-1944	63	61,474	17,972	103,052
1945-1949	529	466,578	76,852	513,593
TOTAL	615	548,481	101,281	648,197
GRAND TOTAL	5,672	8,214,178	1,543,961	12,930,133

SYSTEM 1 TEACHERS, 5 POLICE & FIRE, 7 PUBLIC EMPLOYEES

BASIS OF TEST 4 $900.00 25 YRS.

3	YEAR OF RETIREMENT	NUMBER OF PENSIONERS	PRESENT PENSION	INCREASE ON TEST BASIS	VALUE OF INCREASE
4	1920-1924	22	16,673	8,675	41,821
4	1925-1929	79	87,719	34,865	174,900
4	1930-1934	325	493,515	192,155	1,064,782
4	1935-1939	421	609,443	317,868	2,144,227
4	1940-1944	818	1,312,175	529,595	4,211,838
4	1945-1949	1,268	2,097,297	425,355	3,998,093
	TOTAL	2,933	4,616,822	1,508,513	11,635,661
4	1911-1919	10	7,680	8,106	49,587
4	1920-1924	31	32,848	13,331	79,871
4	1925-1929	58	75,410	22,509	165,074
4	1930-1934	182	256,039	92,980	735,500
4	1935-1939	180	242,584	134,543	1,094,789
4	1940-1944	1,003	1,412,199	668,274	6,625,251
4	1945-1949	660	1,022,115	219,010	2,298,226
	TOTAL	2,124	3,048,875	1,158,753	11,048,298
7 4	1925-1929	1	253	86	265
7 4	1930-1934	5	2,930	1,535	6,235
7 4	1935-1939	17	17,246	8,442	42,697
7 4	1940-1944	63	61,474	29,462	166,551
7 4	1945-1949	529	466,578	119,543	802,270
	TOTAL	615	548,481	159,068	1,018,018
	GRAND TOTAL	5,672	8,214,178	2,826,334	23,701,977

S SYSTEM 1 TEACHERS, 5 POLICE & FIRE, 7 PUBLIC EMPLOYEES

B BASIS OF TEST 5 $900.00 30 YRS.

S	B	YEAR OF RETIREMENT	NUMBER OF PENSIONERS	PRESENT PENSION	INCREASE ON TEST BASIS	VALUE OF INCREASE
1	5	1920-1924	22	16,673	8,241	38,907
1	5	1925-1929	79	87,719	33,947	168,118
1	5	1930-1934	325	493,515	189,188	1,042,856
1	5	1935-1939	421	609,443	310,927	2,088,838
1	5	1940-1944	818	1,312,175	510,279	4,047,326
1	5	1945-1949	1,268	2,097,297	407,320	3,818,493
		TOTAL	2,933	4,616,822	1,459,902	11,204,538
5	5	1911-1919	10	7,680	7,480	45,388
5	5	1920-1924	31	32,848	12,728	74,924
5	5	1925-1929	58	75,410	21,240	151,901
5	5	1930-1934	182	256,039	88,410	685,381
5	5	1935-1939	180	242,584	131,225	1,056,947
5	5	1940-1944	1,003	1,412,199	655,621	6,468,351
5	5	1945-1949	660	1,022,115	213,197	2,220,502
		TOTAL	2,124	3,048,875	1,129,901	10,703,394
7	5	1925-1929	1	253	71	219
7	5	1930-1934	5	2,930	1,381	5,525
7	5	1935-1939	17	17,246	7,872	39,348
7	5	1940-1944	63	61,474	26,618	150,499
7	5	1945-1949	529	466,578	108,362	726,705
		TOTAL	615	548,481	144,304	922,296
		GRAND TOTAL	5,672	8,214,178	2,734,107	22,830,228

S SYSTEM 1 TEACHERS, 5 POLICE & FIRE, 7 PUBLIC EMPLOYEES

B BASIS OF TEST 6 $1200.00 30 YRS.

S	B	YEAR OF RETIREMENT	NUMBER OF PENSIONERS	PRESENT PENSION	INCREASE ON TEST BASIS	VALUE OF INCREASE
1	6	1920-1924	22	16,673	8,452	39,797
1	6	1925-1929	79	87,719	40,293	195,890
1	6	1930-1934	325	493,515	240,783	1,319,377
1	6	1935-1939	421	609,443	395,560	2,637,291
1	6	1940-1944	818	1,312,175	659,826	5,211,801
1	6	1945-1949	1,268	2,097,297	528,548	4,931,924
		TOTAL	2,933	4,616,822	1,873,462	14,336,080
5	6	1911-1919	10	7,680	7,620	45,927
5	6	1920-1924	31	32,848	14,725	85,990
5	6	1925-1929	58	75,410	27,621	196,684
5	6	1930-1934	182	256,039	116,349	901,602
5	6	1935-1939	180	242,584	172,449	1,387,904
5	6	1940-1944	1,003	1,412,199	865,776	8,546,242
5	6	1945-1949	660	1,022,115	282,392	2,940,719
		TOTAL	2,124	3,048,875	1,486,932	14,105,068
7	6	1925-1929	1	253	71	219
7	6	1930-1934	5	2,930	1,434	5,696
7	6	1935-1939	17	17,246	9,730	48,592
7	6	1940-1944	63	61,474	31,780	177,991
7	6	1945-1949	529	466,578	124,272	836,086
		TOTAL	615	548,481	167,287	1,068,584
		GRAND TOTAL	5,672	8,214,178	3,527,681	29,509,732