ICYMI: "If N.J. Stands Still, It Will Be Run Over By Cost Of Its Current Pension Crisis"

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In Case You Missed It
"If N.J. Stands Still, It Will Be Run Over By Cost Of Its Current Pension Crisis"
– Thomas J. Healey

If N.J. stands still, it will be run over by cost of its current pension crisis
Thomas J. Healey, New Jersey Pension and Health Benefit Study Commission
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Faced with the difficulties of benefits reform, some stakeholders' instincts have been to stand still and resist change. The state's current position, however, is untenable: It faces an $82 billion pension deficit which, in the absence of funding increases beyond the realm of reason, will lead to state workers' pensions beginning to run out of money within a decade. Credit ratings agencies this week again stressed the state's need to reduce its employee benefits costs. Moody's Investors Service concluded in assessing the state's creditworthiness: "Without meaningful structural changes that improve the affordability of the state's liabilities, the state's structural imbalance will persist and/or pension liabilities will grow, and the state's rating will continue to fall."

In other words, if New Jersey stands still, it will be run over by the cost of its current benefits.

In contrast, the reforms advocated by the New Jersey Pension and Health Benefits Study Commission will retire the pension deficit over time, preserve benefits earned to date and provide benefits going forward exceeding those found in quality corporate plans. And it will do this at no incremental cost to taxpayers. When given a choice between waiting for ruin and moving forward to a better place, the decision to move forward should not be difficult.

The reforms advocated by the commission lead to a better place. The state's ability to address other needs is already limited by employee benefits (even with only partial pension funding) consuming 14 percent of the budget in 2016. Keeping this percentage constant while fully funding the existing pensions and meeting the ever-increasing costs of the current health benefits would require a decade of constant 10 percent annual revenue growth. This is simply unrealistic. As shown in the accompanying chart, even at a down-to-earth 3 percent annual growth, fully funding the current benefits would require roughly 22 percent of the budget by 2017 and 28 percent by 2025, crowding out other government priorities. Proposed reforms will keep the costs of benefits at a sustainable 14 percent of budget.

Furthermore, even if the state had the money – and it does not – there is no reason to believe it would be any more responsible funding the current system in the future. One of the primary benefits of the proposed cash balance plans is that they will be funded through regular sum-certain payments defined by current salary levels. The state will avoid the risks of funding benefits defined by unknown future salaries. Employees, in turn, will avoid the risk of depending on large, subjectively defined and habitually underpaid end-of-fiscal-year payments. Cash balance funding is transparent, self-executing and predictable, and will prevent a recurrence of the current crisis.

The commission's proposal also pays for all benefits earned to date, protecting the pensions of current retirees. Ending the award of new benefits under the current pension plans, however, will cap what are now open-ended obligations, making it easier to restructure and retire this debt through a defined payment plan guaranteed by constitutional amendment.

Health benefit costs will also be controlled, addressing the greatest single threat to the state's fiscal well-being. The commission does not propose reducing current funding levels, but spending the money more wisely than it has been spent to date providing the costliest public employee health benefits in the nation. Employees and retirees will get a bigger "bang for the buck" by using funds currently wasted by excesses in the health benefits system to instead bolster retirement funding. Reform would also avoid the utter waste of sending almost $6 billion to Washington between 2018 and 2025 to pay the "Cadillac" excise tax to be imposed on excessively costly health benefit plans by the Affordable Care Act. Given competing demands, New Jersey simply cannot afford to "give away" this kind of money.

The proposed reforms would save the retirement system by controlling health benefit costs – moving from unaffordable "platinum" plans to high-quality "gold" level plans that are more fairly in line with the private sector – without affecting quality of care. It is a win-win for everyone.

Finally, the commission's reforms would correct the major structural anomaly of the state paying billions for pension and retiree benefits for teachers who never worked for the state. Shifting some of these costs to the local tax base, where they will be more than offset by savings from reforming local health benefits, will further relieve pressure on an overstrained state budget.

All this can be achieved going forward while still providing benefits better than those prevalent in the private sector. Change is hard, but in different ways all stakeholders have acknowledged it is necessary. The difficulties and uncertainties inherent in effecting change should not obscure the fact that reform is not only inevitable, but good, as it will lay the fiscal foundation for the state and its citizens to thrive in the future.

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