THE STATE-ADMINISTERED RETIREMENT SYSTEMS OF NEW JERSEY:

REPORT OF THE SPECIAL COMMITTEE TO STUDY PUBLIC PENSION PROGRAMS

(pursuant to Assembly Concurrent Resolution No. 3022 of 1975
and Assembly Concurrent Resolution No. 51 of 1976)

JUNE 2, 1977

MEMBERS OF THE SPECIAL COMMITTEE:

Assemblyman Vincent O. Pellecchia, Chairman
Senator Frank Davenport
Senator Barry Parker
Senator Stephen Wiley
Assemblyman Paul Contillo
Assemblyman Walter Foran

SPECIAL COMMITTEE STAFF:

Patrick G. Brady
Research Associate
Division of Legislative Information and Research
Legislative Services Agency

June 2, 1977

The Honorable Members of the Senate and General Assembly

Ladies and Gentlemen:

The Special Committee to study, investigate, and report on public pension programs and to make recommendations thereon, created pursuant to Assembly Concurrent Resolution 3022 of 1975, and reconstituted by Assembly Concurrent Resolution 51 of 1976, herewith respectfully submits its report in compliance with the terms of the resolutions.

Vincent O. Pellecchia
VINCENT O. PELLECCHIA
Chairman

Walter J. Foran
WALTER FORAN

Frank Davenport
FRANK DAVENPORT

Paul Contillo
PAUL CONTILLO

Barry Parker
BARRY PARKER

STEPHEN WILEY

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LIST OF ABBREVIATIONS

PERS	Public Employees' Retirement System
TPAF	Teachers' Pension and Annuity Fund
PFRS	Police and Firemen's Retirement System
JRS	Judicial Retirement System
SPRS	State Police Retirement System
CPF	Consolidated Police and Firemen's Pension Fund
POPF	Prison Officers' Pension Fund

INTRODUCTION

The Special Committee to Study Public Pension Programs was established by Assembly Concurrent Resolution 3022 of the 1975 Legislature, and reconstituted in 1976 by Assembly Concurrent Resolution 51. These resolutions directed the Special Committee to study, investigate and report to the Legislature on the operation of the State-administered retirement systems and pension funds. The Special Committee was also to review the benefits provided by the State systems, taking into account the financial needs of the retirants and their survivors, the impact of inflation on pensions, and the implications of pension funding and benefit liberalization on State, county, and municipal budgets.

The Special Committee began its work in August 1976, and for seven months subsequent it conducted a vigorous investigation of the State systems. It held public hearings on November 16, 1976 and January 28, 1977, and numerous committee meetings at which persons with recognized training and experience in the field of public employee retirement systems provided valuable information. The Division of Pensions of the New Jersey Department of Treasury, George B. Buck, Consulting Actuaries, Inc., the Office of Fiscal Affairs and their actuarial consultant Winklevoss and Associates, and the Martin E. Segal Company furnished the Special Committee with technical data. Representatives from public employee associations, mayors and administrators of local government, and private citizens presented their views to the Special Committee on the adequacy retirement allowances, the cost of funding these benefits, and the manner in which the systems are administered.

Upon commencing this study, the Special Committee realized its task would be formidable and complex. New Jersey adminsters eight major retirement systems and pension funds with approximately 375,000 members and retirants drawn from State, county and municipal government. No system or fund is identical to any other, although similarities do exist among some. Conditions for membership, age and service requirements for retirement, benefit provisions, and costs to employee and employer vary among systems.

The Public Employees' Retirement System (PERS) is the general coverage plan for State, county and municipal employees; the Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), State Police Retirement Fund (SPRF), and Judicial Retirement System (JRS) are limited coverage plans, i.e. membership is restricted to a particular employee group or occupational category. The Consolidated Police and Firemen's Pension Fund (CPF) and the Prison Officers' Pension Fund (POPF), also limited coverage plans, have been closed to new membership since 1952 and 1960, respectively, and will conclude their activities with the expiration of the present membership. The Central Pension Fund covers a very limited number of public employees who are not eligible for enrollment in any of the above systems or any other public retirement system established under the laws of New Jersey. In addition, an Alternate Benefits Program has been established for approximately 8,000 faculty and administrative staff employed by the State's university and colleges.[1]

The Special Committee was also impressed by the volume of the financial transactions of the State retirement systems. In the fiscal year ending June 30, 1976, total combined assets of the systems were $4.2 billion. During that year, the Division of Pensions, as administrator of the systems, disbursed $214.7 million in retirement allowances and collected contributions of $197 million from members and $272 million from State and local employers. In addition, State and local governments paid $25 million for pension increases and $24 million for group life insurance coverage.[2]

Because of its broad legislative mandate as well as the complexity of the subject matter, the Special Committee organized this study into four parts. First, it reviewed the financial condition and funding methods of each retirement system. Second, recent increases in pension costs and their fiscal impact on State and local governments were considered. Third, the benefit plans of retirement systems were evaluated along with suggested improvements. Finally, the general operations and administration of the retirement systems were examined.

At the conclusion of its investigation, the Special Committee finds that the State-administered retirement systems are basically well-managed and in sound financial condition. Funds are being accumulated on a scheduled basis and at a level sufficient to guarantee the solvency of the systems, and no public employee or retirant need fear for the security of his retirement benefits. We find this news especially welcome in light of media accounts during the past few years highlighting the financial problems of public retirement systems of other states and major cities.

The Special Committee is concerned, however, about accelerating pension costs. In recent years, State and local government contributions to the retirement systems have been rising, in some cases significantly. These increases have been reflected both in absolute terms of annual appropriations and in relative terms of higher contribution rates. For example, in 1971, State and local employers contributed $202 million to the retirement systems, $17.7 million for group life insurance coverage and $4.8 million for pension increases, while previously cited figures for 1976 show employer payments of $272 million for pension contributions, $24 million for group life insurance coverage, and $25 million for pension increases.[3] For fiscal years 1977 and 1978, there is every indication that these costs will be higher.

Although these figures are disturbing, New Jersey is not faced with run-away pension costs. The Special Committee finds these higher costs to be attributable to inflation, benefit liberalization, salary increases, membership growth and actuarial losses. It also recognizes that because of the conservative funding methods which have been adopted and which are responsible for the financial solvency of the systems, these new liabilities are recognized immediately and funded accordingly. In so doing, pension liabilities are being equitably distributed between present and future taxpayers.

After making a determination of the financial condition of the retirement systems, the Special Committee reviewed proposals for benefit changes in a manner consistent with its charge from the Legislature. In adopting its recommendations, the Special Committee was sensitive to the dual issues of providing adequate retirement benefits and the capacity of government to pay for them. Particular attention was given to the relationship which exists among benefit costs, funding methods, and State and local budgets. Thus, while the Special Committee strongly believes that career public employees should retire on an income which provides for a measure of social and economic security, it is equally aware that benefits must bear some relation to government's, or, more appropriately, the public's ability to absorb these costs. In making its recommendations, the Special Committee has sought to strike the proper balance.

The recommendations of the Special Committee touch upon many areas of the retirement systems and represent constructive attempts to correct certain deficiencies as well as to make some general improvements. The Special Committee was particularly struck by the need to better protect retirement incomes of pensioners from inflation; to insure that members are properly informed of their rights and benefits; to provide, as nearly as practicable, that members of all systems enjoy the same privileges and rights; and, to ease potential budgetary pressures on local government in financing retirement benefits.

In addition, the Special Committee believes that the Legislature must begin to deal comprehensively with the legislative and administrative aspects of public pensions and other fringe benefits. Neither the creation of ad hoc study commissions, nor the continued practice of distributing pension legislation among the standing reference committees, provides the overview needed in this area. The complexities of pension financing and the existence of de facto benefit parity among the systems cannot be fully appreciated when pension legislation is parceled piecemeal to the several standing reference committees. Pensions and other fringe benefits have become significant budget charges for State and local government and they should be considered on an integrated basis. We strongly recommend the establishment of a permanent, joint legislative committee to deal with all matters relating to pensions and other employee fringe benefits.

The Special Committee wishes to take this opportunity to acknowledge the assistance it has received during this study from the Division of Pensions of the Department of Treasury and the Office of Fiscal Affairs -- both agencies provided valuable technical information and fiscal data. We also wish to thank Patrick G. Brady, Research Associate of the Division of Legislative Information and Research of the Legislative Services Agency, who served as staff for this study.

FOOTNOTES TO INTRODUCTION

1. The Alternate Benefits Program was established for full-time faculty members of Rutgers, The State University, and State and County Colleges. The State does not administer this program, but rather makes contributions on behalf of those participating in it toward the purchase of an annuity. These contributions as well as those of the participating members are made to a private life insurance company, Teachers Insurance and Annuity Association of America, and a companion program, College Retirement Equities Fund (TIAA-CREF). The Special Committee did not review this program.

2. State of New Jersey, Department of Treasury, Division of Pensions, 1976 Annual Report (Trenton, 1977), pp. 8-9. Note: At the time this report was being prepared the 1976 annual reports for the Division of Pensions and the retirement systems were unavailable and thus the tables which will appear in this report do not show this new data. Where possible the Special Committee has sought to include this new data in the text of the report.

3. State of New Jersey, Department of Treasury, Division of Pensions, 1971 Annual Report (Trenton, 1972), p. 11 Division of Pensions, 1976 Annual Report, pp. 8-9.

Summary of Recommendations

The Special Committee to Study Public Pension Programs respectfully recommends that the Legislature should consider the following:

1. Establish a permanent, joint legislative committee to consider all matters relating to public employee pensions and other fringe benefits. (p.28)

2. Provide for the periodic financial review of all State-administered retirement systems by an independent actuarial consulting agency, and that this review be under the direction of the joint legislative committee. (p.29)

3. Amend the Pension Increase Act to provide for an annual cost-of-living adjustment for retirants of State-administered systems equal to 75% of the percentum change in the Consumer Price Index (CPI) from the retirement year to the current year, payments to begin 24 months after retirement. (p.56)

4. Extend the State Health Benefits Program to all State employees who have retired from State-administered retirement systems since July 1, 1964 with 25 years of service. (p.57)

5. Permit a retirant of any State-administered retirement system who is receiving a retirement allowance or pension for any cause other than disability to return to a position, office or employment covered by the system from which he retired without requiring his re-enrollment. The retirant shall receive his pension or retirement allowance and his salary or wage; provided, however, that in each year for every $2.00 earned in salary or wage which exceeds his pension or retirement allowance such pension or retirement allowance will be reduced by $1.00. (p.57)

6. Permit a member of any State-administered retirement system to vest his retirement benefits after 10 years of service. (p.60)

7. Compute the accidental disability retirement benefit provided by the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and Police and Firemen's Retirement System on the basis of salary received during his last year of creditable service instead of salary received at the time of the accident. (p.61)

8. Permit a member of any State-administered retirement system to receive simultaneously a retirement allowance and Workmen's Compensation benefits with no reduction in either benefit. (p.61)

9. Provide that the non-contributory life insurance coverage extended to retirants of the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund pay to the beneficiary a lump sum benefit for death after retirement equal to one-half of the final salary received at retirement. (p.62)

10. Provide that the non-contributory life insurance coverage extended to members of the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund pay to the beneficiary a lump sum benefit for death before retirement equal to twice the final year's salary. (p.63)

11. Re-open for six months the contributory life insurance programs of the Public Employees' Retirement System and Teachers' Pension and Annuity Fund to any member who initially elected not to participate or who discontinued participation in the program. (p.67)

12. Return to beneficiaries of retirants of the Public Employees Retirement System and Teachers' Pension and Annuity Fund any unexpended portion of a retirant's annuity, if such retirant has not selected any optional survivor's benefits. (p.68)

13. Consider replacing the present optional survivor's benefits program for beneficiaries of retirants of the Public Employees' Retirement System and Teachers' Pension and Annuity Fund with a basic survivorship benefit similar to that provided by the other State-administered retirement systems of New Jersey. Should this proposal be adopted, it is recommended that the life insurance coverage of these two systems be totally non-contributory as in the other State systems, paying a lump sum death benefit to a member's beneficiary in an amount equal to 3 1/2 times final year's salary upon death before retirement and 1/2 final year's salary upon death after retirement. It is also recommended that member contribution rates in both systems be increased by at least 1% of salary to offset some of the costs of this benefit, and that a minimum service requirement of 10 years be established to qualify for the survivorship benefit. (p.63)

14. Permit members of the Public Employees' Retirement System and Teachers' Pension and Annuity Fund who are classified as veterans and who have rendered 20 years of service, to retire at age 55 at one-half final year's salary. (p.69)

15. Exempt employer contributions to State-administered retirement systems from county and municipal spending caps established under P.L. 1976, c. 68. (p.49)

16. Direct the State to assume the counties' share of funding the Judicial Retirement System. (p.49)

17. Require members of the Judicial Retirement System to make contributions toward their retirement at a rate of 5% of their annual salaries. (p.50)

18. Increase the annual budget of the Division of Pensions so that it may be directed to do the following:

a. Prepare a brief statement of benefits to be distributed annually to each member of the State-administered retirement systems;

b. Provide that the annual financial statement issued to each member of the State-administered retirement systems set forth the years and months of service credit earned to date;

c. Expand the Division's counselling service. (pp.73-78)

19. Equalize the rates of contribution for men and women enrolled in the Public Employees' Retirement System and Teachers' Pension and Annuity Fund. (pp.80-82)

20. Permit a member of any State-administered retirement system to purchase previous membership service earned in any other State-administered retirement system. (pp.82-86)

21. Enact a transfer of contributions provision between the State-administered retirement systems and the county and municipal pension funds established under the laws of New Jersey to permit a person to receive credit for his previous membership service. (p.85)

22. Permit a member of any State-administered retirement system or any county or municipal fund established under the laws of New Jersey, to purchase previous membership service earned in any of these retirement systems or pension funds. (p.85)

23. Extend the privilege of purchasing retirement credit for certain types of official leaves of absence to members of all State-administered retirement systems. (pp.87-88)

24. Require the enrollment in the Public Employees' Retirement System of any person serving in a temporary position covered by the retirement system if such person completes one full year of employment on a continuing basis. (p.88)

25. Enact legislation to permit any member of the Public Employees' Retirement System to purchase credit for certain previous service rendered in a position covered by the retirement system, but for which he was considered ineligible for enrollment because the manner in which he was compensated did not conform to an administrative rule (NJAC 17:2-2.3) of the Board of Trustees. Under this rule any person, except an elected official, is ineligible for membership in PERS if he is not paid in each calendar quarter,even though he may be a regular full-time employee and meets all statutory provisions for enrollment. The Special Committee believes the Board of Trustees has stretched the Legislature's intent when it barred these employees from enrollment, and it believes such persons should be given the opportunity to purchase this service. (pp.86-87)

The Special Committee recommends that the boards of trustees and pension commissions should consider the following:

1. Review the rules and regulations governing the election of certain trustee members for the purpose of promoting greater membership interest and broadening participation in the electoral process. (p.72)

2. Consider retaining an independent election service to supervise trustee elections. (p.72)

The Special Committee also recommends that the Board of Trustees of the Public Employees' Retirement System reconsider its administrative rule (NJAC 17:2-2:3) denying enrollment to any person,except an elected official, who is not paid in each of four calendar quarters. (pp.86-87)

Section I: Financial Condition of State-Administered Retirement Systems

The initial task of this Special Committee was to evaluate the financial condition of the State-administered retirement systems, or, put another way, to determine if the liabilities (i.e. estimated cost of retirement benefits owing to active and retired members) are fully recognized, with assets being accumulated at levels sufficient to meet present and future obligations.

The State-administered retirement systems are classified as "defined benefit programs," that is, the retirement benefit to which a member is entitled is determined by fixing some percentage of his final average salary[1] multiplied by years of service. (A summary of retirement benefits can be found in Appendix A.) A member enrolled in one of the contributory systems, receives his retirement benefit in the form of a retirement allowance which is composed of an annuity and a pension.* The annuity represents the periodic contributions, based upon a fixed percentage of salary, made by a member to the retirement system during his active membership. The pension is derived from a series of payments made by the employer to the retirement system on behalf of the member during his employment. Employee contributions and employer payments are based on the present value of future benefits payable to a member upon retirement, and this value is determined by an actuary.

*Judicial Retirement System and Central Pension Fund are non-contributory. Persons entitled to benefits under these two systems receive pensions only.

It is important to note that the term "present value of future retirement benefits," does not imply that employer* and member contributions will equal the full value of the benefit at retirement, but that their payments will be discontinued to reflect the investment yield on the sum of the contributions prior to their disbursement.

The Special Committee was particularly interested in how the value of these benefits was determined and the manner in which they are financed. Upon a review of the systems, the Special Committee finds that at least three funding methods are being utilized to finance liabilities arising under the different systems. Regardless of which funding method is used, it is designed to insure that sufficient funds are available to meet all obligations.[2]

The Central Pension Fund and Prison Officers' Pension Fund employ different forms of a "pay-as-you-go" method to finance pension costs. Basically, under this arrangement, pension costs are financed as they come due by an annual appropriation equal to the system's disbursement for the current year. The Central Pension Fund oversees a number of non-contributory pension acts including: (1.) The Heath Act, which covers persons employed by the State in January 1921; (2.) Veterans' Act pensioners; (3.) Non-contributory pensions for certain State employees; (4.) Widows of Governors; and, (5.) Special pensioners receiving payments under the provisions of various State laws.[3] Because the Central

*Employer refers to State, county and municipal governments and certain other instrumentalities which are participating in one or more of the State-administered retirement systems.

Pension Fund is a non-contributory system, it meets all current obligations by an annual budget appropriation. A slightly different "pay-as-you-go" method is utilized to finance the Prison Officers' Pension Fund. Since this is a contributory fund, the State's annual appropriation approximates the difference between employee contributions and the current year's disbursement.

The "pay-as-you-go" method of funding is generally frowned upon by persons knowledgeable in pension matters, and is no longer used by any State to finance its major retirement systems.* This method is, however, suited to meet the limited liabilities incurred by these two small systems in New Jersey. The Prison Officers' Pension Fund was determined to be actuarially unsound in 1960, and has since been closed to new membership. Only 206 active members and 298 pensioners remain in this system, and it makes little sense to finance it on an actuarial basis.[4] With respect to the Central Pension Fund, 461 persons are presently receiving pensions.[5] Present statutory provisions mandating enrollment in State-administered systems for nearly all regular public employees make very remote the likelihood that many persons will qualify for a non-contributory pension in the future.

The Consolidated Police and Firemen's Pension Fund (CPF) is being funded on an actuarial basis, but the method employed differs from the reserve funding approach being used by the other major State-administered systems. Established on July 1, 1953 (P.L. 1952, c.358), the CPF consolidated 212 county and municipal police

*It is the Special Committee's understanding that the State of Massachusetts will abandon its pay-as-you-go plan and adopt a modified and firemen's pension funds which were in different stages of insolvency. Although these funds had been closed to new membership since July 1, 1944 (this marks the establishment of the Police and Firemen's Retirement System), the funding methods utilized by the local systems were insufficient to meet their liabilities. Consolidation salvaged these poorly financed systems and guaranteed the retirement benefits of pensioners and active members. Liabilities were determined on an actuarial basis and a funding plan was established. Annual employer and employee contributions were increased to 6% of total salaries. Also, the State, counties and municipalities are sharing the cost of funding the unfunded liability on a scheduled basis. Participating counties and municipalities are required to make semi-annual deficit payments until January 1, 1983. These payments have a present value, as of December 31, 1970, equal to two-thirds of the lump sum amount necessary to "bring the fund to a state of actuarial solvency." The State funds the remaining one-third of the deficit by annual payments to be made through July 1, 1991.[6] These payments are adjusted annually by an amount necessary to maintain actuarial solvency. As of July 1, 1976, the total unfunded liability was $173,267,159.00.

The major State-administered retirement systems -- Public Employees' Retirement System, Teachers' Pension and Annuity Fund, Police and Firemen's Retirement System, State Police Retirement System, and Judicial Retirement System -- finance retirement costs in a manner that is alternately described as funding, advance funding, reserve funding, or actuarial funding. However described, funding in its generic sense represents a procedure whereby an actuary projects the liabilities of the retirement system (which are the present value of future benefit payments), and establishes a funding schedule by which reserves are set aside during the career of an employee so that at the time he retires accumulated assets will equal the benefits to which he is entitled during his retirement period. It should be noted, however, that there are a number of methods available to attain this end.[7]

The systems under discussion use a traditional funding method known as "entry-age normal." Very simply, the objective of this method is to develop a level contribution rate, expressed as a percentage of salary, by which annual payments are made during a person's membership to provide the value of his retirement benefit at retirement. These costs are divided into the normal contribution and accrued liability contribution.[8]

The normal contribution is divided between the employer and members, if the system is contributory, and it represents the actuary's estimate of the aggregate normal costs of the retirement benefits. To ascertain this cost, the actuary must venture a prediction on the number of members who will actually receive a retirement benefit, and he does this by using assumptions or probabilities to estimate the experience of members with respect to rates of mortality, disability, withdrawal, and retirement age.

He also makes two economic projections on the annual rate of salary increases and the return on the investment of the system's assets. Utilizing these assumptions the actuary performs a system valuation which estimates the present money value of future benefits accruing to members,and then establishes the level normal contribution for the employer and members.

The normal contribution of the employer and members is expressed as a percentage of annual salary or wage. Depending on the system, member contribution rates can be uniform or determined by a sliding scale based on age at the time of enrollment, and, in certain systems, on sex. In New Jersey, a member's contribution is not nominal, but rather reflects a policy determination that he finance some portion of his retirement benefit. Table 1 illustrates that member contributions between 1970 and 1975 constitute a significant sum. A member's total contribution will represent rather less than 50% of the present value of the benefit, usually ranging between 20 to 25%, with the employer's contribution constituting the remaining portion of the normal cost. The relative portions of the normal cost which a member and employer bear during the former's career may shift to the disadvantage of the latter because, while member contribution rates normally do not change during his career, his benefits often do, and the employer is, therefore, required to make up a larger portion of the retirement cost.

*TABLE 1

ANNUAL EMPLOYEE CONTRIBUTIONS TO STATE-ADMINISTERED RETIREMENT SYSTEMS, 1970-1975

	1970	1971	1972	1973	1974	1975
PERS	$31,184,326.00	$37,285,481.23	$45,701,081.36	$49,115,199.07	$53,685,585.40	$59,516,762.24
TPAF	36,123,121.01	42,324,910.03	47,135,578.22	50,519,903.03	52,467,033.56	55,158,764.54
PFRS	12,837,371.88	14,681,423.32	16,150,850.64	17,749,035.24	21,433,547.08	25,188,207.95
SPRS	974,499.94	1,119,338.94	1,205,153.86	1,252,729.83	2,387,262.14	2,590,992.00
CPF	954,600.63	911,062.02	828,146.56	699,384.54	738,866.35	503,538.11
POPF	183,003.09	195,331.50	204,262,56	199,530.96	198,793.46	185,511.58
Total Employee Contributions	$82,256,922.55	$95,517,547.04	$111,225,073.20	$118,935,782.67	$130,911,088.03	$143,143,776.42

*Source: 1970-1975 Annual Reports for PERS, TPAF, PFRS, SPRS, CPF, POPF

The accrued liability, or supplemental liability, covers that portion of a member's creditable service which precedes the adoption of the retirement plan and for which normal contributions were not made. It can also include service for which normal contributions were made on the basis of less generous plan benefits which have since been liberalized. The accrued liability contribution is borne by the employer. It "covers service rendered prior to the date of an actuarial valuation and constitutes the difference between the value of future benefits and the value of prospective employee and employer contributions related to future service."[10] The interest and principal of this liability are amortized over a scheduled period, usually ranging from 30 to 40 years depending on the size of the liability.

Theoretically, the employer's pension payments could remain at a level percentage of salary, but in actuality this has not been the case. Thus, it is not unusual for employer costs to change, sometimes significantly, during the life of the retirement system.[11] These changes occur for a number of reasons: benefit liberalization, increased enrollment, inflation and actuarial losses and gains. Whenever any of these situations arise, the actuary must revalue the liabilities of the system and make appropriate adjustments either in the normal contribution or accrued liability, or both. (This will be discussed more fully in Section II.)

During this inquiry, the Special Committee did not suffer from a dearth of information concerning the unfortunate experiences of other States and municipalities which had, for a variety of reasons, failed to properly manage their retirement systems. Most interestingly, a number of these systems are being funded, at least in theory, on an actuarial reserve basis. Due to poor funding, some States and municipalities are experiencing difficulties in maintaining the fiscal integrity of their retirement systems. Congressional reports, national conferences and seminars on public employee retirement systems, media accounts and works of a more scholarly nature have provided a plethora of evidence on the improper funding of public retirement systems. Years of underfunding caused by deferring contributions, using unrealistic actuarial assumptions, or making generous benefit improvements without commensurate changes in contributions, have placed some retirement systems on the brink of financial disaster, while others face serious, though not imminent, danger of collapse. These States and municipalities will soon have to recognize the true liabilities of their retirement systems. When this occurs, present and future taxpayers in these areas will be burdened by additional costs, costs which rightfully and responsibly should have been previously met.[12]

In assessing the financial condition of New Jersey's retirement systems, the Special Committee was concerned about whether or not the actuarial assumptions utilized realistically reflect the experiences of the systems, and, thus, within the limits of actuarial science, are the best estimates of the systems' liabilities. In some instances, however, best estimate assumptions must be based on future activities or economic trends, rather than past experience. The Committee recognized that failure to employ best estimate assumptions will have the effect of understating liabilities, and, though employers may well realize a short term benefit of lower costs, these liabilities will eventually come due. Of course, some actuarial assumptions are of greater importance than others in determining system costs, and the significance of actuarial losses associated with understating liabilities will vary.[13] It is also possible that assumptions can be too conservative and as a result the system will be overfunded, thus causing an unnecessary diversion of government revenues. Normally, however, overfunding is not a situation facing public employee retirement systems.

On the basis of the data submitted, the Special Committee concludes that at present the State-administered retirement systems are in sound financial condition. The present level of funding is progressing satisfactorily, and assets are being accumulated on a scheduled basis sufficient to meet present and future demands on the systems. This conclusion is supported by the testimony and documentation presented by the Division of Pensions and the actuaries employed by the boards of trustees and pension commissions -- George B. Buck Consulting Actuaries, Inc., and Stone, Young and Co. It is further substantiated by recent independent actuarial valuations of PERS and TPAF, the two largest systems, prepared by Winklevoss Associates for the New Jersey Office of Fiscal Affairs.[14]

The Special Committee recognizes that although the reports of the Office of Fiscal Affairs (OFA) find the two major contributory systems, PERS and TPAF, to be financially sound, they also warn of potential underfunding problems due to actuarial losses incurred from a salary progression assumption which understates the impact of inflation on salary increases. The salary progression assumption used by the system actuary assumes an annual salary increase for members of PERS and TPAF of approximately 4%, but the experience of the systems in recent years has shown salaries of PERS members increasing at 7% per annum and TPAF members at 6%. At a committee hearing held on January 28, 1977, representatives of the Division of Pensions and George B. Buck Consulting Actuaries, Inc., and the Office of Fiscal Affairs and Winklevoss Associates were asked to explain these discrepancies and recent actuarial losses. The Special Committee recognizes the importance of losses in this area, but it is satisfied for the present that this situation is being closely monitored by the Division of Pensions and that if the unfavorable salary experience continues appropriate adjustments will be made.[15]

*TABLE 2

ANNUAL EMPLOYER CONTRIBUTIONS TO STATE-ADMINISTERED RETIREMENT SYSTEMS, 1970-1975

	1970	1971	1972	1973	1974	1975
PERS - State	$19,835,952.00	$22,564,814.00	$13,949,006.00	$16,888,777.00	$20,396,669.00	$25,551,491.00
Local	36,058,922.50	24,073,926.06	26,314,731.00	33,315,773.89	43,382,398.55	47,656,059.90
TPAF - State	85,617,542.35	95,821,069.42	62,495,720.00	72,318,508.27	78,628,722.35	89,898,951.42
PFRS - Local	24,176,386.00	19,323,219.00	22,994,567.00	24,002,290.00	27,963,724.15	39,666,399.65**
SPRS	5,892,069.00	6,517,274.00	4,274,151.00	4,906,805.00	5,202,623.00	5,525,140.00
JRS	-	-	-	-	1,435,000.00	3,603,536.00
POPF	415,000.00	460,000.00	542,000.00	617,000.00	765,000.00	935,000.00
CPF - Local Normal	2,170,294.19	851,045.52	565.284.00	844,875.49	597,053.79	616,357.33
Local Deficit	10,572,708.45	12,599,020.00	10,942,718.00	11,672,613.00	12,230,735.54	12,235,791.00
State Deficit	6,444,056.00	6,621,111.00	6,195,484.00	4,174,681.00	4,345,740.00	4,346,132.00
Total Contributions	$191,182,930.49	$188,831,479.00	$148,277,661.00	$168,741,323.65	$194,947,666.38	$230,034,858.30

*Source: 1970-1975 Annual Reports of PERS, TPAF, PFRS, SPRS, JRS, POPF and CPF.

**Starting in fiscal year 1976, the State made contributions to PFRS as a result of the transfer of certain State employees from PERS to PFRS pursuant to P.L. 1973, c.156. The State's contribution in fiscal year 1976 was $2,400,000.00. Contributions may have begun earlier, but it is not so indicated in the annual reports of the PFRS.

*TABLE 3

ASSETS OF STATE-ADMINISTERED RETIREMENT SYSTEMS, 1970-1975

	1970	1971	1972	1973	1974	1975
PERS	$ 607,301,045.00	$ 693,249,454.00	$ 784,696,454.00	$ 890,085,263.00	$1,003,573,778.00	$1,128,384,362.00
TPAF	1,052,224,849.00	1,194,201,030.00	1,308,508,651.00	1,438,411,192.00	1,575,889,438.00	1,731,649,800.00
PFRS	335,703,559.00	386,277,605.00	445,357,538.00	509,575,233.00	604,516,618.00	703,023,328.00
SPRS	27,737,934.00	36,018,733.00	42,583,105.00	49,851,351.00	58,050,825.00	66,878,687.00
JRS	-	-	-	4,578,811.00	6,576,736.00	8,752,492.00
POPF	76,901.00	70,187.00	76,857.00	83,173.00	109,880.00	118,167.00
CPF	74,815,305.00	79,188,107.00	81,539,797.00	82,419,442.00	83,403,010.00	82,080,328.00
TOTAL	$2,097,859,593.00	$2,389,005,116.00	$2,662,762,493.00	$2,975,004,465.00	$3,332,120,285.00	$3,720,887,164.00

*Source: Annual Report of Division of Pensions, Department of Treasury, State of New Jersey, 1970-1975

*TABLE 4

ANNUAL DISBURSEMENTS OF STATE-ADMINISTERED RETIREMENT SYSTEMS, 1970-1975[1]

	1970	1971	1972	1973	1974	1975
PERS	$24,036,226.00	$ 27,268,746.00	$ 33,611,429.00	$ 39,421,329.00	$ 45,867,844.00	$ 53,518,488.00
TPAF	48,953,885.00	53,731,793.00	62,172,620.00	74,131,572.00	83,867,464.00	93,546,957.00
PFRS	2,047,057.00	2,504,172.00	3,128,694.00	4,506,371.00	6,455,146.00	8,608,658.00
SPRS	1,514,574.00	1,686,715.00	1,932,083.00	2,279,073.00	2,538,693.00	2,795,565.00
JRS	-	-	-	1,221,844.00	1,726,224.00	2,017,667.00
POPF	598,777.00	678,938.00	771,737.00	860,089.00	1,019,107.00	1,212,683.00
CONSOLIDATED POLICE & FIRE	20,655,582.00	21,451,914.00	22,566,688.00	23,909,396.00	24,697,442.00	26,564,925.00
CENTRAL PENSION FUND	531,206.00	537,968.00	537,995.00	549,060.00	525,187.00	472,996.00
TOTAL	$98,337,307.00	$107,859,976.00	$124,721,246.00	$146,878,734.00	$166,697,107.00	$188,737,939.00

1. Disbursement includes regular retirement allowance and pension increase.
* Source: Annual Report of Division of Pensions, Department of Treasury, State of New Jersey, 1970-1975.

Although the Special Committee is pleased to report favorably on the financial condition of the State-administered retirement systems, it believes, nevertheless, that the fiscal implications of financing these systems are such that periodic reviews by ad hoc legislative committees are no longer satisfactory. As Tables 1-4 demonstrate, the sums of money associated with these systems, whether in the form of employer-employee contributions, accumulated assets, or benefit disbursements, are staggering. Pension matters and other employee fringe benefits should be considered by a permanent, joint legislative committee rather than be scattered among the various standing reference committees of the respective Houses. When considering the magnitude of costs associated with these programs, a fragmented approach to legislating pension matters can no longer be justified. Close attention must be paid to the relationship which exists between benefits, costs and their broader fiscal implications. A joint legislative committee can deal with pension matters on a comprehensive basis, appreciating the subtleties and intricacies of pension financing, recognizing the de facto benefit parity existing among the systems, and pinpointing areas where improvements in the systems are required. The Special Committee, therefore, recommends that the Legislature establish a permanent, joint legislative committee to consider all matters relating to public employee pensions and other fringe benefits.

During this study, the Special Committee also realized the importance and need for retaining the services of an independent actuarial consultant to perform periodic valuations of the retirement systems and provide fiscal data on proposed benefit changes. The frequency of these reviews will depend upon the size of the system and previous evaluations of its financial condition, but they should occur at intervals of not less than five years and not more than ten years. The above recommended joint legislative committee is the logical place from which these studies should emanate, and it is consistent with the need for a comprehensive understanding of pension matters that the joint legislative committee be responsible for their undertakings. These periodic valuations should not be interpreted as a criticism of the Division of Pensions, but rather as recognition that fiscal prudence demands a second opinion, even if only to confirm the validity of the first. The Special Committee, therefore, recommends that the Legislature provide for the periodic financial review of all State-administered retirement systems by an independent actuarial consulting agency and that such review be under the direction of the joint legislative committee.

FOOTNOTES TO SECTION I

1. In the case of PERS, TPAF, PFRS, SPRS, POPF and CPF, final average salary means the average salary received during the last 3 years of service,or the average of highest salaries for any 3 years of service. In the Judicial Retirement System, final salary is that which was received during the last year of service.

2. This section draws heavily on a number of general published sources which provide excellent explanations on the different funding methods for public employee retirement systems. See, especially: Thomas Bleakney, Retirement Systems for Public Employees (Homewood, Ill.: Richard D. Irwin, Inc.,1972), chapters 5-7; Robert Tilove, Public Employee Pension Funds (New York: Columbia University Press, 1975), chapters 8 and 9; Bernard Jump, Jr., State and Local Employee Pension Plans: Watching for Problems (Columbus, Ohio: Academy for Contemporary Problems, 1976), pp. 8-12; Bernard Jump, Jr., "Compensating City Government Employees: Pension Benefit Objectives, Cost Measurement, and Financing" Occasional Paper, Metropolitan Studies Program, The Maxwell School, Syracuse University, 1976.

3. A summary of these different acts can be found in: State of New Jersey, Department of Treasury, Division of Pensions, New Jersey Public Employee Benefit Manual (Trenton, 1977), pp. 276-284.

4. State of New Jersey, Department of Treasury, Division of Pensions, Prison Officers' Pension Fund of New Jersey 1975 Annual Report (Trenton, 1976), p. 3, 5. (Hereafter all annual reports will be cited by title and year alone.)

5. State of New Jersey, Department of Treasury, Division of Pensions, 1975 Annual Report (Trenton, 1976), p. 5.

6. Division of Pensions, New Jersey Public Employee Benefit Manual, pp. 22, 374. Stone, Young & Co., "Actuarial Valuation of Consolidated Police and Firemen's Pension Fund as of December 31, 1974," pp. 4-5.

7. See: Tilove, Public Employee Pension Funds, pp. 131-173, for an excellent description of different funding approaches.

8. Bleakney, Retirement Systems for Public Employees, pp. 86-89.

9. Ibid.

10. Tilove, Public Employee Pension Funds, pp. 151-152. Bleakney, Retirement Systems for Public Employees, pp. 89-92. Division of Pensions, New Jersey Public Employee Benefit Manual, p. 7.

11. The Special Committee notes that references to changes in pension costs usually mean increased costs. To be sure, this has been the case in the past few years for all State systems both in absolute amounts and in employer rates of contribution. However, the normal contribution rates for PERS, TPAF and PFRS dropped significantly in 1970 following a change in actuarial assumptions and a revaluation of the systems' liabilities. The normal contribution rate for employers participating in PERS, TPAF and PFRS for July 1, 1969 and July 1, 1970 were as follows:

		July 1, 1969	July 1, 1970
PERS	State-veteran	9.96%	5.97%
	State-non-veteran	9.72%	5.78%
	Local-veteran	10.13%	6.23%
	Local-non-veteran	9.89%	6.06%
TPAF		12.23%	4.95%
PFRS		12.07%	10.40%

The normal rate of contribution for PERS and TPAF is still below 1969 rates. See Table 5 for present contribution rates. Public Employees' Retirement System 1970 Annual Report, p. 25. Public Employees' Retirement System 1971 Annual Report, p. 25. State of New Jersey Teachers' Pension and Annuity Fund 1970 Annual Report, p. 25. State of New Jersey Teachers' Pension and Annuity Fund 1971 Annual Report, p. 24. Police and Firemen's Retirement System of New Jersey 1970 Annual Report, p. 7. Police and Firemen's Retirement System of New Jersey 1971 Annual Report, p. 7.

12. Of late, there appears to be an almost limitless supply of material available detailing the trials and tribulations of public employee retirement systems. The Special Committee found the following to be useful: Tilove, Public Employee Pension Funds, chapters 12, 14, 15 and 16; Tax Foundation., Employee Pension Systems in State and Local Government (New York: Tax

Foundation, Inc., 1976); Jump, State and Local Employee Pension Plans: Watching for Problems; Jump, "Compensating City Government Employees: Pension Benefit Objectives, Cost Measurement, and Financing"; Jump, "Financing Public Employee Retirement Programs in New York City: Trends Since 1965 and Projections to 1980," Occasional Paper No. 16, Metropolitan Studies Program, Maxwell School, Syracuse University, 1975; U.S. House of Representatives, Committee on Education and Labor, Pension Task Force of the Subcommittee on Labor Standards, Interim Report of Activities of the Pension Task Force of the Subcommittee on Labor Standards (Washington: Government Printing Office, 1976); Philip Dearborn, Jr., Pensions for Policemen and Firemen (Washington, D.C.: Labor-Management Relations Service of the National League of Cities, National Association of Counties, and United States Conference of Mayors, 1974); Edward H. Friend, First National Survey of Employee Benefits for Full-Time Personnel of U.S. Municipalities (Washington, D.C.: Labor-Management Relations Service of National League of Cities, National Association of Counties, and United States Conference of Mayors, 1972); Edward H. Friend, Second National Survey of Employee Benefits for Full-Time Personnel of U.S. Municipalities (Washington, D.C.: Labor-Management Relations Service of the National League of Cities, National Association of Counties, and United States Conference of Mayors, 1974); State of Illinois, House of Representatives, House Republican Staff, A Comparative Survey of Selected Public Employee Retirement Systems (Springfield, Ill., 1976); Economic Development Council of New York City, Inc., Pension Changes in New York City, 1962-1972 (New York, 1972); State of New York, Permanent Commission on Public Employee Pension and Retirement Systems, Report of the Permanent Commission on Public Employee Pension and Retirement Systems (New York, 1973); State of New York, Permanent Commission on Public Employee Pension and Retirement Systems, Financing the Public Pension Systems, Part I: Actuarial Assumptions and Funding Policies (New York, 1975); State of New York, Permanent Commission on Public Employee Pension and Retirement Systems, Recommendation for a New Pension Plan for Public Employees: The 1976 Coordinated Escalator Retirement Plan (New York, 1976); State of Massachusetts, Funding Advisory Committee and Retirement Law Commission, Report to the Governor and General Court of Massachusetts (Boston: 1976); State of Maryland, Pension Study Committee, 1976 Interim Report to the Maryland General Assembly (Annapolis, 1976); Connecticut Public Expenditure Council, Inc., Perspectives on Connecticut's State Retirement Plan (Hartford, 1975); "City Pension Plans Go Deeper in the Hole," Business Week, September 15, 1975, p. 80; John C. Perham, "The Mess in Public Pensions," Dun's Review, March 1976, pp. 48-50. Tax Foundation, Inc., "Public Employee Pension Systems Seen Short of Adequate Funding," Monthly Tax Features, June 1976, pp. 1,3.

13. For an excellent discussion of the financial impact of varying assumptions, see: State of New Jersey, Special Committee to Study Public Pension Programs, Special Committee Meeting on the Actuarial Assumptions Used by the Public Employees' Retirement System and Teachers' Pension and Annuity Fund, January 28, 1977 (Trenton, 1977).

14. State of New Jersey, Special Committee to Study Public Pension Programs, Public Hearing before the Special Committee, November 12, 1976 (Trenton, 1976) pp. 1-19 and appendix pp. 1x-16x; Special Committee to Study Public Pension Programs, Special Committee Meeting on the Actuarial Assumptions Used by the Public Employees' Retirement System and Teachers' Pension and Annuity Fund; George B. Buck Consulting Actuaries, Inc., "Statement Regarding the Actuarial Assumptions and Funding Status of the New Jersey State Retirement Systems," submitted to the Special Committee to Study Public Pension Programs, January 28, 1977; George B. Buck Consulting Actuaries, Inc., Public Employees' Retirement System of New Jersey: Twenty-First Annual Report of the Actuary, Prepared as of March 31, 1975 (1976); George B. Buck Consulting Actuaries, Inc., Teachers' Pension and Annuity Fund of New Jersey: Fifty-Sixth Annual Report of the Actuary, Prepared as of March 31, 1975 (1976); George B. Buck Consulting Actuaries, Inc., Police and Firemen's Retirement System of New Jersey: Thirty-First Annual Report of the Actuary, Prepared as of June 30, 1975 (1976); Stone, Young and Co., Actuarial Valuation of the Judicial Retirement System of New Jersey, June 30, 1975 (1976); Stone, Young and Co., Report of the Actuarial Valuation of the State Police Retirement System as of July 1, 1975 (1976); Stone, Young and Co., Actuarial Valuation of Consolidated Police and Firemen's Pension Fund as of December 31, 1974 (1975); State of New Jersey, Office of Fiscal Affairs, New Jersey's Contributory Public Employee Pension Programs: Actuarial Analysis and Pension Cost Forecast of the Teachers' Pension and Annuity Fund (Trenton, 1976), p. 1.; State of New Jersey, Office of Fiscal Affairs, New Jersey's Contributory Public Employee Pension Programs: Actuarial Analysis and Pension Cost Forecast of the Public Employees' Retirement System (Trenton, 1976) p.1.

15. Special Committee to Study Public Pension Programs, Committee Meeting on the Actuarial Assumptions Used by the Public Employees' Retirement System and Teachers' Pension and Annuity Fund, passim; Office of Fiscal Affairs, New Jersey's Contributory Public Employee Pension Programs: Actuarial Analysis and Pension Cost Forecast of the Public Employees' Retirement System, passim.

Section II: Fiscal Impact of Financing State-Administered Retirement Systems

In recent years, employer contributions to the State-administered retirement systems have been rising significantly; these increases can be seen not only in absolute terms of aggregate amounts annually appropriated (Table 2, p. 25), but also in relative terms of higher contribution rates which are expressed as percentages of total salaries (Table 5, p. 36). Local officials have reported to the Special Committee that their pension contributions have risen by 50 to 100% in the past five years. A review of the State's annual contributions during the same period also reveals sizable increases. An analysis of each system by the Special Committee indicates that the rate of increase has not been uniform since the factors which influence costs such as benefit liberalization, salary increases, membership growth, and actuarial losses and gains have varied.

Unfortunately, these increases have occurred at a time when government on all levels has experienced budgetary strains due to inflation, recession and demands for new or expanded services. Inflation affects a government's budget just as it does the ordinary citizen's, and even in the absence of new or expanded programs, more dollars are needed to provide the same services. Moreover, revenue gains normally experienced during inflation have been eroded by a simultaneously occurring recession which has depressed this State's economy since 1974-1975. Pension contributions represent fixed budget charges and they compete with other governmental services and obligations for dollars at a time when inflation erodes purchasing power and recession adversely affects revenue growth. In addition, the recently enacted limitations on the annual growth of expenditures of State, county and municipal governments will require more rigorous budgeting of resources and a closer monitoring of their distribution.

No serious consideration could be given to proposals for benefit changes until the Special Committee ascertained how the funding of present benefits affects State, county and municipal budgets. Consideration was given to whether or not costs are increasing at a rate which creates budgetary strains for State and local government. Particular attention was paid to whether or not local government was experiencing additional difficulties because of the combined effects of State-mandated pension costs and State-mandated expenditure limitations.

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As previously noted, representatives from local government submitted to the Special Committee information which detailed, in some instances, exorbitant increases in pension costs. For

TABLE 5 *

NORMAL CONTRIBUTION RATES FOR EMPLOYERS

		July 1, 1970	July 1, 1974	July 1, 1975
PERS	State-veteran	5.97%	6.54%	6.81%
	State-non-veteran	5.78%	6.35%	6.61%
	Local-veteran	6.23%	7.04%	7.18%
	Local-non-veteran	6.06%	6.85%	6.99%
TPAF		4.95%	6.28%	7.13%
PFRS		10.40%	12.99%	14.32%
SPRS	Members enrolled			
	pre-7/1/65	N/A	21.74%	21.94%
	post 7/1/65		17.64%	17.80%
JRS			20.20%	22.67%
CPF		6%	6%	6%
POPF		Funded annually on a pay-as-you-go basis.		

*Source:
1971 Annual Reports for PERS, TPAF, PFRS, SPRS, CPF Public Employees' Retirement System of N.J.: Twenty-First Annual Report of the Actuary, March 31, 1975; Teachers' Pension and Annuity Fund of N.J.: Fifty-Sixth Annual Report of the Actuary, March 31, 1975; Police and Firemen's Retirement System of New Jersey: Thirty-First Annual Report of the Actuary, June 30, 1975; Actuarial Valuation of the Judicial Retirement System of New Jersey, June 30, 1975; Report of the Actuarial Valuation of the State Police Retirement System, July 1, 1975; Actuarial Valuation of Consolidated Police and Firemen's Pension Fund, December 31, 1974.

example, the Township of Randolph (Morris County) in 1973 paid $30,647.00 to the Police and Firemen's Retirement System, and $21,014.00 to the Public Employees' Retirement System; in 1976, costs for these systems were $43,170.00 (+40%) and $44,704.00 (+100%), respectively. Cedar Grove (Essex County) reported that in 1971, with a police department of 22 members, it contributed $26,965.00 to PFRS; in 1976, with a department of 23 members, pension costs had risen to $57,172.00 (+112%). During this period Cedar Grove's operating budget increased 30%, from approximately $1,800,000.00 to $2,300,000.00. Other municipalities have reported similar increases.[1]

The problem which this Special Committee faced was not whether the previous examples accurately represent the experience of every employer, since we have no doubt that costs have increased for most, but, rather, to determine the reasons for the overall increases. To do so it is necessary to review the four components which constitute employer costs: normal contribution, accrued liability, group insurance premium, and pension adjustment. The first three factors fund the retirement and death benefits provided by each system; the fourth is an annual appropriation to pay for cost-of-living adjustments of retirement allowances. Some of these components are more important than others in influencing total costs.

As previously stated, the normal contribution is an annual payment made by the employer on behalf of the member to fund the member's defined retirement benefit. It commences from his enrollment in the system and continues until his retirement. The overall cost increases experienced by the retirement systems are in large part attributable to factors affecting the normal contribution. General factors as well as special factors associated with the experience of each retirement system are responsible for these increases.

Salary increases for public employees have had a significant impact on pension costs. In recent years, salary adjustments for members of Police and Firemen's Retirement System have been averaging increases of about 8-9% annually, for members of Public Employees' Retirement System 7%, and for members of Teachers' Pension and Annuity Fund 6%. Since the State-administered systems calculate benefits on the basis of final average salary, they are especially sensitive to salary adjustments, and any increase will raise pension costs immediately. The effect of an increase is evident in two ways: first, since the employer's contribution is based on a percentage of salary, higher salaries will automatically mean greater aggregate contributions; second, if these adjustments occur at a rate inconsistent with the actuary's salary progression assumption (that is when the actuary assumes an annual increase of 4 to 4 1/2% and there is actual adjustment of 7%), additional contributions will be required to offset this unfavorable experience. Because New Jersey uses a very conservative funding approach, technically referred to as the "frozen initial liability method," actuarial losses are recognized immediately by an adjustment in the normal rate of contribution. The recent salary increases of public employees have exceeded the actuary's assumption, and this has been a major factor in the acceleration of pension costs.

The Special Committee wishes to point out that even though retirement benefits are not subject to collective bargaining, agreements emerging from this process, as they relate to salary adjustments, can have a significant impact on pension costs. Public employers will be well-advised to pay greater attention to the full impact of wage and salary packages, since any increase will be reflected in their contributions to the retirement systems.

Membership growth also influences pension costs. A review of the enrollment figures for the retirement systems shows that growth in most systems has been steady and in some cases substantial.[2] Table 6 (p.40) provides membership data in the retirement systems for the past six years.

These enrollment figures can be misleading, however, if they are interpreted exclusively as an index of the growth of public employment. In the case of the Public Employees' Retirement System and the Police and Firemen's Retirement System they represent, to some extent, an extension of membership to additional employee groups. Notwithstanding this qualification, there has been a general increase in public employment and enrollments in the retirement systems, and with each new uniformed officer, teacher or civil servant, pension costs will automatically rise. Increased enrollment will not necessarily alter the normal contribution rate, but it will increase overall costs.

There are factors special to each retirement system which also explain changes in normal contributions. Benefit liberalization, whether of major or minor significance, will be translated into higher costs. Whenever there is a liberalization or

*TABLE 6

MEMBERSHIP IN STATE-ADMINISTERED RETIREMENT SYSTEMS 1970-1975

	1970		1971		1972		1973		1974		1975	
	Active-	Pensioners	Active-	Pensioners	Active-	Pensioners	Active-	Pensioners	Active-	Pensioners	Active-	Pensioners
PERS	113,866	13,298	126,511	14,367	140,823	15,726	151,411	17,469	157,626	19,637	171,518	21,682
TPAF	98,558	14,532	102,198	15,191	104,022	16,250	106,341	17,539	107,521	18,836	109,634	19,888
PFRS	18,576	664	19,254	862	20.028	1,026	20,750	1,203	23,861	1,487	25,080	1,795
SPRS	1,504	357	1,608	379	1,643	400	1,652	426	1,674	441	1,766	467
JRS	-	-	-	-	-	-	255	77	271	98	269	107
CPF	1,301	8,420	1,113	8,328	924	8,257	725	8,141	578	7,973	440	7,819
POPF	326	225	296	235	279	248	262	255	213	262	206	298
Central Pension Fund	-	483	-	473	-	470	-	477	-	461	-	461
TOTALS	234,131	37,979	250,980	39,835	267,716	42,377	281,396	45,587	291,744	49,195	308,913	52,517

*Source: Annual Reports of Division of Pensions: Department of the Treasury, State of New Jersey, 1970-1975 improvement in the retirement system, the value of the retirement benefit increases and the actuary must revalue the system's liabilities. Unless there are comparable cost offsets to the improvement, such as additional requirements to qualify for the benefit or actuarial gains, the liabilities of the system increase and the funding schedule reflected in the normal contribution must be adjusted accordingly. It is important to note the improvements which were provided by legislation in 1971 and 1973 when reviewing the trend of employer contributions over the past 6 or 7 years.[3] Some of the changes of major significance include: 1971 amendments of State-administered systems changing the definition of final average salary to provide that retirement benefits be computed on the highest salaries received during any 3 years of service instead of any 5 years;[4] 1973 amendments of PERS and TPAF permitting early retirement at age 55 with 25 years of service, and no reduction in benefit;[5] and, 1973 amendments of PFRS, POPF and CPF liberalizing the basic benefit formula and permitting early retirement after 25 years of service with no age requirement at one-half average final salary.[6]

Normal contributions are also affected when the experience of the retirement system compares unfavorably with the assumptions used by the actuary to estimate liabilities. Reference has previously been made to the general salary trend being higher than anticipated. The most recent actuarial valuation of the Police and Firemen's Retirement System (March 31, 1975) also attributes higher employer costs to an increasing trend toward early retirement and a decrease in the mortality rates of retirants.[7] For the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund, the increase in the Social Security tax base (members enjoy a 2% reduction in pension contributions until their salaries or wages exceed the maximum covered by Social Security) and the decrease in the mortality rate of retirants partially explain rising costs.[8]

The Special Committee notes with interest that increased longevity rates and more generous early retirement provisions for public employees may in the near future be responsible for further cost increases -- especially if the trend towards early retirement continues. Additional reserves would have to be accumulated to fund retirement benefits because they would be received for a longer period. Also, public employees may be expected to request a more liberal formula for computing benefits to provide them with a basic allowance that can better withstand the effects of inflation and reduced purchasing power. Early retirement and increased longevity will also have important fiscal implications on the Pension Increase Program, which provides for an annual adjustment of the retirement allowance based upon changes in the Consumer Price Index. Again, this increase would be related to receiving the retirement benefit for a longer time.

In addition to normal contributions, employers also make annual payments to the different systems to liquidate their accrued liabilities. The accrued liability is equal to the assets which would have been accumulated had normal contributions always been at their present rate for any member in the plan since he was first enrolled; or put another way, it represents the difference between the present value of future benefits and prospective employer-employee contributions. As seen in Table 7, (p.45) this type of liability is common to all State-administered systems, though the size of the liability and the schedule of payments to amortize it differs. This funding procedure is often, but not exclusively, utilized to amortize liabilities accruing because of the adoption of major benefit changes.[9] Following a benefit improvement an actuarial valuation will recompute the present value of future benefits which will result in an adjustment of normal contributions for future service. Since the new benefit is usually applicable to all of an employee's creditable service, including that rendered previous to the adoption of the benefit for which no contributions were made, there exists an unfunded liability which can be reflected in prospective normal contributions or funded separately. When there is a major benefit improvement similar to those which occurred in 1971 and 1973, as previously mentioned, the unfunded liability can be significant, and to include this cost in the normal contribution may be unnecessarily burdensome. By financing this liability separate from the normal contribution, the funding schedule can be stretched out to make payments more manageable without financially undermining the retirement systems.

The premiums for the non-contributory group life insurance provided for members of the retirement systems have also been steadily increasing for the past few years. In fiscal year 1972, combined State and local premium payments were $23,979,302.00; in fiscal year 1974 payments were $24,887,743.00; and, in fiscal year 1975 they increased to $29,021,465.00. These costs are attributable to a variety of factors including inflation, growth in membership, and higher salaries (death benefits are related to salary).[10]

The Pension Increase Program represents an additional annual charge to employers unrelated to funding retirement benefits or paying insurance premiums. The provisions of this program extend to all State-administered systems. Originally established in 1958 (P.L. 1958, c.143), and significantly modified in 1969 (P.L. 1969, c.169), this program provides fixed percentage increases in the retirement allowances and pensions received by persons retired before 1954. More importantly, however, after three years of retirement every retirant or eligible survivor of a State-administered retirement system receives a cost-of-living adjustment in his retirement allowance equal to one-half the

* TABLE 7

ACCRUED LIABILITY OF STATE-ADMINISTERED RETIREMENT SYSTEMS

PERS	As of March 31, 1975 - $203,378,792.00 40 year amortization payments beginning July 1, 1972
TPAF	(1) As of July 1, 1975 - $388,378,693.00 40 year amortization payments beginning July 1, 1971
	(2) As of July 1, 1975 - $26,478,655.00 30 year amortization beginning July 1, 1957, adjusted proportionately on July 1, 1967 to cover additional liability due to elimination of Social Security offset. This liability covers veterans in employment on January 1, 1955.
PFRS	As of June 30, 1975 - $110,295,856.00 40 year amortization payments beginning July 1, 1972
SPRS	As of July 1, 1975 - $30,939,011.00 40 year amortization payments beginning July 1, 1971
JRS	As of July 1, 1975 - $28,925,553.00 40 year amortization payments beginning July 1, 1974
CPF	As of July 1, 1976 - $173,267,159.00 STATE SHARE - $ 63,198,565.00 38 year amortization payments beginning July 1, 1953 LOCAL SHARE - $110,068,594.00 30 year amortization semi-annual payments beginning July 1, 1953; amortization period can be further adjusted

*SOURCE: Public Employees' Retirement System of N.J.: Twenty-First Annual Report of the Actuary, March 31, 1975; Teachers' Pension and Annuity Fund of N.J.: Fifty-Sixth Annual Report of the Actuary, March 31, 1975; Police and Firemen's Retirement System of N.J.: Thirty-First Annual Report of the Actuary, June 30, 1975; Actuarial Valuation of Judicial Retirement System of New Jersey, June 30, 1975; Report of the Actuarial Valuation of the State Police Retirement System, July 1, 1975; Actuarial Valuation of Consolidated Police and Firemen's Pension Fund, December 31, 1974.

percentage of change in the Consumer Price Index from the year of retirement to the current index year. The index is reviewed annually.

Initially, the costs of this program were modest, but as Table 8 (p.48) demonstrates they have risen. In fiscal year 1971, combined State and local contributions were $4,806,853.00; in 1973 they increased to $13,607,362.00; and the most recent data for fiscal year 1976 shows a cost of $25,011,322.00. Several factors explain this increase. First, the number of persons eligible to receive this benefit has increased from 23,316 in 1971 to 36,246 in 1976.[11] Second, the higher than anticipated rate of inflation since 1973 has advanced the Consumer Price Index (1967=100) between 1972 and 1976 from 125.3 to 170.5, a 36% increase, and this has been translated into an 18% cost-of-living adjustment.[12] Third, the general improvement in salary structure increases the value of the retirement allowance which, in turn, has resulted in the annual cost-of-living adjustment building upon a larger basic benefit.

The Special Committee notes that this method of adjusting retirement allowances for inflation can have a significant fiscal impact, particularly since this benefit is financed on a "pay-as-you-go" basis. New Jersey is one of two States, Maryland being the other, which provides for a cost-of-living adjustment that is tied to changes in the Consumer Price Index.
Most State retirement systems provide for either automatic or discretionary cost-of-living increases in fixed percentages

of approximately 2 to 3% per year. Although the advantage of linking this increase to the Consumer Price Index is that it more accurately reflects inflationary trends, its open-ended nature can result in sharp increases in costs which must be financed immediately. The recent inflation is, hopefully, a short term aberration rather than a secular trend, still it amply demonstrates the cost implications of this type of benefit.[13]

After reviewing the four components comprising employer costs and some of the reasons responsible for their increase, the Special Committee finds that although recent trends in pension costs are disturbing, they are explainable. Certainly, these costs do not stem exclusively from benefit liberalization, but, rather, are attributable to inflation, salary advances, membership growth, and actuarial losses as well. We do not believe, however, that State and local governments are confronted with "run-away" pension costs. No doubt some of these increases have been sizable; still, they are associated with a responsible effort to recognize liabilities and fund them accordingly. In so doing, pension liabilities are being equitably distributed between present and future taxpayers, and, through sound reserve funding, employer obligations have been kept lower than those of other States with comparable benefits.

On the basis of the information submitted, this Committee concludes that the financing of the retirement systems have not reached a point where they place significant strains on State, county and municipal budgets. Nevertheless, the Special Committee believes that certain actions should be taken by the

*TABLE 8

ANNUAL EMPLOYER COSTS TO FUND PENSION INCREASE ACT

(Fiscal Years 1970-1975)

	1970	1971	1972	1973	1974	1975
PERS - State	$ 131,461.49	$ 315,598.87	$ 780,130.71	$ 1,229,401.75	$ 1,409,418.52	$ 1,679,717.66
Local	168,209.85	412,862.39	1,024,534.93	1,615,790.76	1,845,534.88	2,180,022.74
TPAF - State	1,420,833.64	2,624,630.61	4,761,220.74	6,883,693.45	7,737,552.00	9,027,177.49
PFRS - State & Local	13,971.85	43,047.37	118,527.00	200,592.15	251,785.61	336,602.67
SPRS - State	40,425.38	79,204.41	173,958.46	277,332.70	318,013.11	368,277.00
JRS - State & County	-	-	-	-	90,521.66	101,062.31
CPF - State	855,652.55	1,307,649.07	2,031,881.84	2,818,167.81	3,051,822.11	2,822,641.16
POPF - State	11,974.79	23,858.95	39,849.08	52,235.64	77,966.69	94,203.23
Total Annual Appropriations	$2,642,529.55	$4,806,851.67	$8,930,102.76	$13,077,214.26	$14,782,614.64	$16,609,704.26

*Source: Annual Reports for PERS, TPAF, PFRS, SPRS, JRS, CPF and POPF, 1970-75

Legislature to help stave off potential budgetary problems for local government and to redistribute some pension costs. The Special Committee recommends that the Legislature consider the following:

1. Exempt employer contributions to State-administered retirement systems from county and municipal spending caps (P.L. 1976, c.68).

This law permits annual increases in local spending at a rate of 5%, with certain exceptions. While the Special Committee subscribes to the wisdom of the spending cap law, it also believes an unfair burden may be placed on local governments when pension costs are State-mandated and factors influencing these costs often lay beyond the control of the counties and municipalities. This situation may create unnecessary budgetary pressures when allocating resources. The more flexible formula contained in the State cap law (P.L. 1976, c.67) to determine annual increases in the State operating budget (this year the budget may increase by 9 1/2%) does not warrant, at least for the foreseeable future, the exemption of the State's pension contributions from spending limits.

2. Direct the State to assume the counties' share of funding the Judicial Retirement System.

At present, the counties bear the full cost of employer contributions made on behalf of county court judges enrolled in the Judicial Retirement System. This cost is apportioned among the counties on the basis of the number of judges sitting in each county. Since its establishment in 1973, total costs of funding of the Judicial Retirement System and the amounts contributed by the counties have been rising steadily. In fiscal year 1976, the total employer contribution to the system was $3,939,716.00, the counties' share was $1,614,632.00; in fiscal year 1977 the total contribution is estimated to be $4,358,419.00, with the counties' share increasing to $1,825,000.00; and, in fiscal year 1978, the total contribution is expected to be $5,000,000.00, with the counties paying $2,100,000.00. The Special Committee does not believe that the State's assumption of the full cost of funding the Judicial Retirement System will be especially burdensome. Moreover, the savings realized by the counties with the adoption of this measure can be applied to other worthwhile local services.

3. Require members of the Judicial Retirement System to make contributions toward their retirement at a rate of 5% of their annual salaries.

This system is presently non-contributory and it provides the most generous benefits of any of the State-administered systems. This Committee notes that requiring contributions by members of the judiciary is not without precedent in New Jersey. Before the establishment of the Judicial Retirement System, a judge sitting in a court of a county which participated in the Public Employees' Retirement System was eligible to enroll in this system, and, of course, make contributions. Also, members of the New Jersey Supreme and Superior Courts for many years made contributions, albeit nominal, toward their retirement.

The Committee understands that it is quite probable that a flat rate contribution will not in many instances bear a reasonable relationship to the value of the retirement benefit. It is also true that the system provides identical benefits for certain different age and service requirements, and, therefore, under a contributory arrangement some will pay more than others for the same benefit. The Committee, however, does not believe that a relationship between contributions and benefits must exist in every instance, particularly when the value of the benefit in this case can be as high as $250,000.00. Rather, the Committee views the flat rate contribution as a way to reduce overall employer costs. For example, according to the Annual Report of the Judicial Retirement System for 1976, the total employer contribution due July 1, 1976 was $4,358,419.00. During that year salaries of the judiciary were estimated at $10,631,000.00; a 5% flat rate contribution based on this salary amount would have yielded $531,555.00, thus reducing employer costs by approximately 12 1/2%.

As the costs of this system continue to increase, the Committee believes it is not unfair to request members of the judiciary to contribute on behalf of their retirement.

FOOTNOTES TO SECTION II

1. State of New Jersey, Special Committee to Study Public Pension Programs, Public Hearing before the Special Committee, November 12, 1976 (Trenton, 1976), pp. 13A-16A, 17A-20A, 17x-26x.

2. The Prison Officers' Pension Fund and Consolidated Police and Firemen's Pension Fund are closed to new membership.

3. A useful summary of the major legislative enactments affecting New Jersey's contributory retirement systems can be found in: State of New Jersey, Office of Fiscal Affairs, New Jersey's Contributory Public Employee Pension Programs: Program Analysis of the Public Employees' Retirement System (Trenton, 1976), pp. 14-28.

4. PERS was amended by P.L. 1971, c.213; TPAF by P.L. 1971, c.121; PFRS by P.L. 1971, c. 175; SPRS by P.L. 1971, c.181; and POPF by P.L. 1971, c. 179.

5. See P.L. 1973, c.129. This provision lowered the permissible retirement age for early retirement from 60 to 55 years. If a member has rendered 25 years of service but has not attained age 55, he may still elect for early retirement, but his benefit will be reduced by 3% for each year under 55.

6. See P.L. 1973, c.109, P.L. 1973, c.110, and P.L. 1973, c.155. Upon enactment of these provisions, the benefit formula was changed from 2% of final average salary for each year of service up to 25 years and 1% for each year in excess of 25 to 2% of final average salary for each year of service up to 30 years and 1% for each year in excess of 30.

7. George B. Buck Consulting Actuaries, Inc., Police and Firemen's Retirement System of New Jersey: Thirty-First Annual Report of the Actuary, Prepared as of June 30, 1975, p. 13, 15.

8. George B. Buck Consulting Actuaries, Inc., Public Employees' Retirement System of New Jersey: Twenty-First Annual Report of the Actuary, Prepared as of March 31, 1975, pp. 21, 43-55; George B. Buck Consulting Actuaries, Inc., Teachers' Pension and Annuity Fund of New Jersey: Fifty-Sixth Annual Report of the Actuary, Prepared as of March 31, 1975, pp. 14, 16.

9. Accrued liability funding is also used to finance service rendered prior to January 1, 1955 by veterans enrolled in PERS and TPAF.

10. State of New Jersey, Department of Treasury, Division of Pensions, 1972 Annual Report, (Trenton, 1972), pp. 11, 14; State of New Jersey, Department of Treasury, Division of Pensions, 1974 Annual Report (Trenton, 1974), p. 9, 12; State of New Jersey, Department of Treasury, Division of Pensions, 1975 Annual Report (Trenton, 1975), pp. 8, 11.

11. State of New Jersey, Department of Treasury, Division of Pensions, 1971 Annual Report (Trenton, 1971), p. 6; State of New Jersey, Department of Treasury, Division of Pensions, 1973 Annual Report (Trenton, 1973), p.6; State of New Jersey, Division of Pensions, 1976 Annual Report (Trenton, 1977) pp. 6, 8, 11.

12. Bureau of Economic Statistics, Inc., The Handbook of Basic Statistics (Washington, D.C.: Economic Statistics Bureau, 1977).

13. For a summary of the cost-of-living adjustments provided by other states, see: Tax Foundation, Inc., Employee Pension Systems in State and Local Government (New York, 1976), p. 65.

Section III: Benefit Review and Improvements

Throughout this investigation, the Special Committee received countless proposals to improve the benefit structures of the State retirement systems. The majority of these proposals were intended to provide greater economic security for the retirant and thus better insulate his retirement benefit from the effects of inflation. The Special Committee agrees in principle with this objective and appreciates the efforts of those who devoted their energy and resources in formulating these proposals. Every suggestion was carefully reviewed with the beneficial aspect balanced against ultimate costs. In considering these proposals the Special Committee was especially attentive to the condition of retirants living on relatively fixed incomes during a period of high inflation. Thus, the Special Committee distinguishes between those proposals which will work to alleviate financial pressures on present retirants and those which will affect the conditions of retirement and benefit structure for future retirants. The Special Committee has assigned a higher priority to the former.

I

No reminders are necessary concerning the effects of the recent inflation on the cost-of-living. A cursory glance at the Consumer Price Index shows an overall advance from 125.3 in 1972 to 170.5 in 1976.[1] Certainly, almost everyone has had to make adjustments in consumption habits because inflation has diminished purchasing power. The costs of the basic amenities of life -- food, clothing, shelter, fuel, medical services -- have increased significantly over the past five years. Public employees have attempted to recoup their lost purchasing power with demands for salary increases. Although their efforts in this respect have not been uniformly successful, public employees, for the most part, have managed to stay barely even with inflation. The situation with respect to retirants of State-administered systems, or their survivors, presents a rather less pleasant picture. The retirement allowance or pension is established at retirement and seldom is fundamentally altered by way of a blanket increase. The Pension Increase Act provides that after 3 years of retirement, the retirant or survivor shall receive an annual cost-of-living adjustment equal to 1/2 of the percentum of change in the Consumer Price Index from the year he retired to the current year. Thus, under the best circumstances, the retirant can expect only to maintain partial pace with overall price increases. If one of the purposes of a retirement system is to provide an income sufficient to allow a senior employee to terminate his employment and live with a reasonable degree of economic security, then inflation has been undermining this end.

In an effort to assist retirants of State-administered systems to stabilize their purchasing power against inflation, the Special Committee recommends that the Legislature consider the following:

1. Amend the Pension Increase Act to provide for an annual cost-of-living adjustment for retirants of State-administered systems equal to 75% of the percentum of change in the Consumer Price Index (CPI) from the retirement year to the current year, payments to begin 24 months after retirement.

This recommendation will increase the cost-of-living adjustment provided for retirants and eligible survivors from 50 to 75% of the change in the Consumer Price Index. We believe this change will greatly assist retirants in maintaining the purchasing power of their retirement benefit. Almost as important is reducing the waiting period to receive this adjustment from 3 full calendar years of retirement to 24 months from the day of retirement. The effect of the 3 calendar year waiting period is that many retirants must wait extra months beyond the 3 year period before they become eligible. For example, if a person retires in February 1974, he must wait all of the 10 months of 1974 and 3 calendar years, a total of 3 years, 10 months, before becoming eligible to receive the cost-of-living adjustment. Unfortunately, inflation does not discriminate between those who receive this adjustment and those who do not. We believe the adjustment should be paid as soon as is administratively possible, and it is the Special Committee's understanding that 24 months from the date of retirement is the minimum amount of time required by the Division of Pensions to make the appropriate administrative adjustments.

The Committee notes that if this recommendation is adopted by the Legislature serious consideration should be given to shifting the financing of this benefit from a "pay-as-you-go" method to an actuarial reserve basis.

2. Extend the State Health Benefits Program to all State employees who have retired from State-administered retirement systems since July 1, 1964 with 25 years of service.

Presently any person who retired from a State-administered retirement system on or after July 1, 1972 and is receiving a benefit based on 25 years or more of creditable service will continue to receive the benefits provided by the State Health Benefits Program and will be reimbursed for premium charges under Part B of the Federal medicare program. The Special Committee recommends the coverage period be extended back to July 1, 1964 with the same service requirements. Due to the high cost of medical services and the fact that older retirants are more likely to have need of these services, the Special Committee believes that the extension of this provision will be especially beneficial.

3. Permit a retirant of any State-administered retirement system who is receiving a retirement allowance or pension for any cause other than disability to return to a posision, office or employment covered by the system from which he retired without requiring his re-enrollment. The retirant shall receive his pension or retirement allowance and his salary or wage; provided, however,

that for every $2.00 he earns in annual salary or wage which exceeds his pension or retirement allowance for that year, his pension or retirement allowance will be reduced by $1.00.

Under present New Jersey law, any person who retires from a State-administered system and returns to work, either full-time or part-time, in a position covered by the system from which he retired, will be re-enrolled and his retirement allowance discontinued so long as he remains employed. If, however, a person retires from a State-administered system and assumes employment in a position covered by another State-administered system, he is prohibited from enrolling in the latter, and is allowed to receive his full retirement allowance and his wages. The Special Committee believes these provisions are unfair to some retirants. It believes the high cost-of-living has forced retirants to assume part-time employment to supplement their income, and this recommendation will assist those public employees who have been penalized by the present law governing their return to employment in a position covered by the system from which they retired.

II

The Special Committee has also thoroughly reviewed the many proposals which would improve the benefit plans of the State systems. In order to properly evaluate the merits of these proposals, the benefits of each State system were carefully scrutinized. (A summary of the benefits provided by the different systems can be found in Appendix A.) Where appropriate, the supplementary effects of Social Security benefits on a retirant's income were also considered. The benefit plans of this State's systems were compared to those provided by other States and large municipalities as well as to models describing the benefits of an "average State system." (See Appendix Table 1) Careful attention was given to how other States and municipalities finance their systems, the financial conditions of these systems and whether or not these costs represent major budgetary items.[2] In making this comparative review, the Special Committee evaluated the different benefit plans in their entirety, rather than piecemeal.

The Special Committee concludes that, on the whole, retirement benefits enjoyed by members of the New Jersey retirement systems compare favorably with those provided by other States. New Jersey benefits are neither extraordinarily generous nor parsimonious. As a result, the Special Committee is not prepared to recommend any basic changes with regard to age and service requirements for retirement, or in the formulas used to compute benefits. During the course of its review, however, a number of areas were focused upon which the Special Committee believes merit change -- some of these improvements will apply to all systems while others will be limited to certain systems.

The Special Committee recommends that the Legislature consider the following:

1. Permit a member of any State-administered retirement system to vest after 10 years of service. Vesting is a term of art used describe a situation in which an employee attains a right to future retirement benefits. This right is not contingent upon his continued employment or active membership in the retirement system. Under the present statutes, any person who is a member of a State-administered retirement system for 15 years and terminates his employment voluntarily or involuntarily before reaching service retirement age (60 or 55 depending on the system), and not by removal for cause on charges of misconduct or delinquency, may elect to vest, that is, leave his contributions in the system and receive a retirement allowance upon attaining service retirement age.

The Special Committee notes that in at least 37 states the vesting provision in the general coverage plans is 10 years or less. (See Appendix Table 3.) In the limited coverage plans, the number of systems permitting 10 year vesting is also very high. Furthermore, the recently enacted Federal Employee Retirement Income Security Act of 1974 regulating private retirement plans sets 10 years as one of a number of alternative age or service requirements for vesting. The Special Committee believes that New Jersey ought to conform with this national trend.

2. Compute the accidental disability retirement benefit provided by the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and Police and Firemen's Retirement System on the basis of salary received during the member's last year of creditable service instead of salary received at the time of the accident.

Under the present statutes, a member of PERS, TPAF or PFRS who retires due to a service-connected injury (accidental disability) is entitled to an allowance equal to two-thirds of the salary he received at the time of the accident. It is, however, not unusual for a person to experience a delayed manifestation of a debilitating injury, thus requiring retirement two to three years after the accident. Under these circumstances the retirement benefit will be based on a lower salary than the member is receiving at the time he retires. The Special Committee believes an employee required to retire because of a work-related injury should receive the maximum benefit allowable. Moreover, this recommendation will bring these three systems into conformance with the practice already followed by the State Police Retirement System, Judicial Retirement System, Consolidated Police and Firemen's Pension Fund, and Prison Officers' Pension Fund.

3. Permit a member of any State-administered retirement system to receive simultaneously a retirement allowance and Workmen's Compensation benefits with no reduction in either benefit.

Presently, if a member receiving benefits under the Workmen's Compensation Law applies for retirement and such application is approved, the actuarial equivalent of any Workmen's Compensation benefits remaining to be paid will be reduced from the pension portion of the member's retirement allowance. The Special Committee does not believe that retirement benefits should be tied to Workmen's Compensation benefits, and upon satisfying the criteria for retirement, a member's retirement allowance should not be reduced

4. Provide that the non-contributory life insurance coverage extended to retirants of the Teachers' Pension and Annuity Fund and Public Employees' Retirement System pay to the beneficiary a lump sum benefit upon death after retirement equal to one-half of the final salary received at the time of retirement.

These two systems presently provide for a non-contributory death benefit after retirement equal to three-sixteenths of the salary received by the retirant during his last year of service. The Special Committee notes that a death benefit equal to one-half of salary received during the last year of service is provided by the Police and Firemen's Retirement System and the State Police Retirement System. The death benefit for PERS and TPAF should be increased to one-half of the last year's salary.

5. Provide that the non-contributory life insurance coverage extended to members of the Teachers' Pension and Annuity Fund and Public Employees' Retirement System pay to the beneficiary a lump sum benefit upon death before retirement equal to twice the final year's salary.

The non-contributory life insurance coverage for members of these two systems presently provides that if death occurs before retirement, either service or non-service related, the deceased member's beneficiary will receive a lump sum payment of of one and one-half times final year's salary. The Special Committee believes this lump sum payment should be increased to twice the member's final salary.

6. Consider replacing the present optional retirement benefits program for beneficiaries of retirants of Public Employees' Retirement System and Teachers' Pension and Annuity Fund with a basic survivorship benefit similar to that provided by the other State-administered retirement systems of New Jersey. Should this proposal be adopted, it is also recommended that life insurance coverage in these two systems be made totally non-contributory, as in the other State systems, paying a lump sum death benefit to a member's beneficiary in an amount equal to 3 1/2 times final year's salary upon death before retirement and 1/2 final year's salary upon death after retirement. It is further recommended that member contribution rates in both systems be increased by a minimum of 1% of salary to offset some of the costs of this

benefit, and that a minimum service requirement of 10 years be established to qualify for the survivorship benefit.

In reviewing the survivorship benefits provided upon a member's death after retirement, the Special Committee has observed basic differences among the systems. Upon the death of a retirant of the Police and Firemen's Retirement System, Consolidated Police and Firemen's Pension Fund, State Police Retirement System, Prison Officers' Pension Fund or Judicial Retirement System, a survivor's pension is payable to the widow or widower and dependent children. The widow or widower will receive, as long as he or she does not remarry, a pension equal to 25% of the retirant's average final salary, or final salary, depending on the system; a surviving child will receive 15% of such compensation; and, two surviving children will receive 25% of such compensation. In PFRS, CPF and POPF, a fixed minimum widow's pension is provided for. Also, a non-contributory lump sum death benefit is payable to a designated beneficiary equal to 1/2 of the retirant's final salary (it is 1/4 in the Judicial Retirement System), provided that the retirant has rendered 10 years of creditable service.

The survivor's pension is part of the basic benefit plan in each of these systems; no member is required to elect this benefit, nor does a member upon retirement have his retirement allowance reduced if he has designated an eligible survivor.

This is not the case, however, with the Public Employees' Retirement System and Teachers' Pension and Annuity Fund. No survivor's pension is automatically provided for in either system, but a member prior to retirement may elect optional benefits payable to a designated beneficiary upon his death. When a member who has selected an option retires, his retirement allowance is reduced by 15 to 40% depending on the option selected. Should the designated beneficiary (it can be someone other than a widow or widower or children) predecease the retirant, the latter will continue to receive his reduced retirement allowance. A member may elect one of four options to provide an income for his beneficiary: (1) Should the retirant die before collecting the initial reserve (annuity plus pension) established to support his retirement, the unexpended balance is paid in a lump sum to his beneficiary; (2) Upon the death of the retirant, his retirement allowance shall be paid for the life of the beneficiary; (3) Upon the death of the retirant, the beneficiary shall receive for life 1/2 of the retirant's retirement allowance; and, (4) The member may specify the amount of the allowance payable to the designated beneficiary provided it does not exceed option 2. Whether or not the member elects survivorship options, a beneficiary of a PERS retirant receives a lump sum death benefit of 3/16 of final salary and a beneficiary of a TPAF retirant receives a payment of 7/16 of final salary (3/16 if the member did not purchase contributory insurance).

This is not the case, however, with the Public Employees' Retirement System and Teachers' Pension and Annuity Fund. No survivor's pension is automatically provided for in either system, but a member prior to retirement may elect optional benefits payable to a designated beneficiary upon his death. When a member who has selected an option retires, his retirement allowance is reduced by 15 to 40% depending on the option selected. Should the designated beneficiary (it can be someone other than a widow or widower or children) predecease the retirant, the latter will continue to receive his reduced retirement allowance. A member may elect one of four options to provide an income for his beneficiary: (1) Should the retirant die before collecting the initial reserve (annuity plus pension) established to support his retirement, the unexpended balance is paid in a lump sum to his beneficiary; (2) Upon the death of the retirant, his retirement allowance shall be paid for the life of the beneficiary; (3) Upon the death of the retirant, the beneficiary shall receive for life 1/2 of the retirant's retirement allowance; and, (4) The member may specify the amount of the allowance payable to the designated beneficiary provided it does not exceed option 2. Whether or not the member elects survivorship options, a beneficiary of a PERS retirant receives a lump sum death benefit of 3/16 of final salary and a beneficiary of a TPAF retirant receives a payment of 7/16 of final salary (3/16 if the member did not purchase contributory insurance).

The Special Committee believes it may be appropriate for the Legislature to consider placing PERS and TPAF on parity with the other State-administered systems in the area of survivorship benefits. Such benefits should be provided automatically, but they should be restricted to the widow or widower and dependent children of the retirant. There should be no reduction in the retirant's maximum retirement allowance if he has an eligible survivor. At the same time, the non-contributory and contributory life insurance policies should be merged and be entirely non-contributory, paying death benefits equal to those of the other State-administered systems -- 3 1/2 times final salary for death before retirement and 1/2 final salary for death after retirement.

The Special Committee fully appreciates the high costs associated with this recommendation -- possibly increasing costs to these two systems by 20 to 30%. Certainly, we do not recommend legislative action in this area until a clearer fiscal picture can be presented. Nevertheless, we believe a basic system of income security for the survivors of the retirants of PERS and TPAF similar to that provided in the other State-administered systems should be established. This benefit should be funded during the career of the member and he should not have his retirement allowance reduced to provide income for his widow or children. Nor should a member who acts responsibly to care for his survivors have to continue to receive a reduced retirement allowance even if they predecease him.

Given the importance of this recommendation to the members of these two systems, both in terms of offering income security to their survivors and of receiving their maximum retirement allowance, the Special Committee believes that they should bear some portion of the cost. Contributions should be increased by a minimum of 1% of a member's annual compensation and the present insurance premium for contributory insurance should be merged into the contribution rate. Furthermore, we recommend that in order to qualify for this survivorship benefit a member must render 10 years of creditable service.

7. Re-open for six months the contributory life insurance programs of the Public Employees' Retirement System and Teachers' Pension and Annuity Fund to members who initially elected not to participate or who discontinued participation in the programs.

A member of PERS or TPAF during his first year of membership must purchase a contributory life insurance policy with the option to discontinue this coverage after the first year. If a member exercises his option to discontinue coverage, he may never again participate in this program. The Committee believes, with a qualification, that a grace period of approximately 6 months should be established in which members who previously discontinued participation in this program will have an opportunity to purchase coverage. This grace period will also be extended to a smaller group of members who at the time these programs were initiated rejected participation.

As noted, this recommendation is qualified. Since these persons had the opportunity to purchase this coverage and elected either not to participate or to discontinue participation, we believe their admission or readmission into this program should be contingent upon the impact they will have on the premium payments of present participants. Premium payments are determined by group rates, and the Special Committee's support for this proposal will diminish by the extent that it increases premiums for the entire plan. We do not believe that the present participants in this program should bear the burden of significantly higher premium payments on account of persons who formally rejected an opportunity to participate. Therefore we believe that before legislative consideration is given to this recommendation, a thorough review of its financial impact on present participants be conducted.

8. Return to the beneficiaries of retirants of the Public Employees' Retirement System and Teachers' Pension and Annuity Fund the unexpended portion of a retirant's annuity, if such retirant has not selected any survivor's benefits.

Under the present statutes, if a member of PERS or TPAF fails to select an optional benefit upon retirement and he dies before collecting the value of his annuity in his retirement allowance, the unexpended portion reverts to the retirement system. The Special Committee believes that the beneficiary of the retirant is entitled to the difference of the value of the retirant's annuity at retirement and the amount of the annuity expended in his retirement allowance.

9. <u>Permit any member of the Public Employees' Retirement System or Teachers' Pension and Annuity Fund who is classified a veteran and who has rendered 20 years of service to retire at age 55 at one-half final year's salary.</u>

Presently PERS and TPAF provide a special veteran's retirement privilege. If a veteran was enrolled in either system before January 2, 1955, completes 20 years of <u>continuous</u> service, and attains age 60, he can retire at one-half his final year's salary. If a veteran was enrolled before January 2, 1955 and completes 20 years of <u>aggregate</u> service, or was enrolled after January 2, 1955 and completes 20 years of service, he can retire at age 62 at one-half his final year's salary. The Special Committee finds that the early retirement privileges available to all members of these two systems (age 55 and 25 years of service) minimize the value of the veterans' benefit. It believes that any person classed as a veteran should be allowed to retire on half salary upon attaining age 55 and completing 20 years of service.

FOOTNOTES TO SECTION III

1. Bureau of Economic Statistics, Inc., The Handbook of Basic Economic Statistics (Washington: Economic Statistics Bureau, 1977).

2. See especially: Robert Tilove, Public Employee Pension Funds (New York: Columbia University Press, 1976), chapters 14, 15 and 16; U.S., House of Representatives, Committee on Education and Labor, Pension Task Force of the Subcommittee on Labor Standards, Interim Report of Activities of Pension Task Force of the Subcommittee on Labor Standards (Washington: Government Printing Office, 1976); Bernard Jump, Jr., "Financing Public Employee Retirement Programs in New York City: Trends Since 1965 and Projections to 1980," Occasional Paper No. 16, Metropolitan Studies Program, Maxwell School, Syracuse University, 1975; Bernard Jump, Jr., "Compensating City Government Employees: Pension Benefit Objectives, Cost Measurement, and Financing," Occasional Paper, Metropolitan Studies Program, Maxwell School, Syracuse University, 1976; State of New York, Permanent Commission on Public Employee Pension and Retirement Systems, Financing the Public Pension Systems, Part I: Actuarial Assumptions and Funding Policies (New York, 1976).

Section IV: Administration of State Retirement Systems

In studying the administration of State-administered retirement systems, the Special Committee focused upon those areas dealing with members' rights and benefits. The Committee was particularly concerned about: (1) whether or not public employees possessed a basic understanding of their rights and benefits; (2) what avenues of appeal were available to members to correct administrative oversights, resolve disputed claims, and challenge administrative rulings; and, (3) whether any significant differences, excluding retirement benefits, existed among the systems permitting members of one system to enjoy advantages or privileges not available to members of other systems.

Very briefly, the State retirement systems are administered on a two-tier basis. The Division of Pensions of the Department of the Treasury has the responsibility to oversee the day-to-day administrative operations of the retirement systems, within the limits of the law and subject to the rules, regulations and decisions of the boards of trustees or pension commissions of the respective systems. The Division's functions are further defined by case law and opinions of the Attorney General. In addition, a board of trustees or pension commission has been established by law for each retirement system and possesses a fiduciary responsibility for the assets, liabilities, and membership. Subject to limitations of law, each board or commission is empowered to promulgate rules and regulations governing the administration and transaction of business and the control of funds. The board or commission also has limited quasi-judicial authority to adjudicate a member's claim or dispute, provided its decision is consistent with the law, opinions of the Attorney General, and previous administrative rulings.[1]

Most boards of trustees and pension commissions are composed of appointed and elected members. (See Appendix Table 4). The State Treasurer is an ex-officio member of each board and commission, and the Governor appoints, with a few exceptions, the other non-elected members to serve at his pleasure. In those systems with elected trustees, they are selected either by the membership in its entirety, or by that portion of the general membership which they will represent. Elected trustees serve for a specified term of office, usually three or four years. The board or commission promulgates rules and regulations governing the nominating and balloting procedures.

The Special Committee has closely reviewed the rules and regulations that each retirement system has adopted for the election of employee trustees. We are not prepared to make legislative recommendations at this time, but there is concern about the wisdom of a board or commission establishing rules governing the election of its own members and then administering the same through the Division of Pensions. It is our opinion that some independent control or oversight of these elections is appropriate. The Special Committee is further concerned about the limited member participation in these elections and the number of elected trustees who are also officers or active members of employee associations. Although it stands to reason that these persons probably have a deeper interest in these matters, still the Special Committee believes that these trustees may be drawn from too limited a group. We certainly do not wish to imply that any impropriety has taken place, and we believe that the present elected trustees and their predecessors have rendered valuable service to their fellow members. Nevertheless, some effort should be made to stimulate broader membership interest and participation. Also, the Division of Pensions should be relieved of its responsibility of administering trustee elections.

In order to remove any need for the Legislature to act in this area, the Special Committee recommends that the boards of trustees and pension commissions consider the following:

1. Review the rules and regulations governing the election of certain trustee members for the purpose of promoting greater membership interest and broadening participation in the electoral process.

2. Consider retaining an independent election service to supervise trustee elections.

I

A major concern of this Special Committee has been the quantity and quality of information disseminated to public employees explaining their retirement benefits. A common complaint of employees is that they find the subject too confusing and, as a result, have little understanding of their rights and benefits. Limited knowledge often creates additional problems since an employee may lose or fail to take timely advantage of certain privileges, especially with respect to the purchase or transfer of creditable service. A recent survey of members of PERS conducted by the Office of Fiscal Affairs substantiated these complaints by demonstrating that 75% of the persons responding knew little or nothing of their retirement benefits.[2] The Special Committee believes that poor employee understanding of retirement benefits undermines the dual purpose which these systems purport to serve: first, to provide an employee benefit; and, second, to act as a personnel tool to attract and retain qualified employees and bolster morale.

The Special Committee reviewed the basic procedures employed by the Division of Pensions to transmit information on retirement benefits to public employees to determine their adequacy, as well as to ascertain what improvements should be made.

There are at least five ways a member is informed of his retirement benefits:

1. Upon enrollment in a State-administered system, the new member receives from his personnel office a pamphlet prepared by the Division of Pensions outlining the benefits to which he or she is entitled. The pamphlet, written in general, non-technical language, offers a reasonably comprehensive explanation of an employee's entitlements;

2. At appropriate times, the Division of Pensions prepares and circulates supplemental literature explaining recent benefit changes and other pertinent information;

3. Every member receives an annual statement of account providing information on his total contributions, rate of contribution, contributory insurance coverage, and balances owing for any loan and purchase of previous service. For certain systems, the statement also summarizes the years of service for which a member has been credited;

4. The enrollment application informs the member of his eligibility to transfer credit earned in another State-administered retirement system or, where eligible, to purchase previous service; and,

5. The Division of Pensions employs pension counsellors to deal with specific requests for information or resolve, when possible, special problems.

Although the number of sources from which a member receives information appears sufficient, it still remains that this information is not being uniformly absorbed and that, in some instances, the process is not working well. The Special Committee believes a number of factors may explain why certain members are not adequately versed in their retirement benefits.

First, members to a certain extent must share some responsibility for their poor knowledge. The Special Committee recognizes that the subject of pensions is both confusing and bland and is,perhaps, perfectly suited as a cure for insomnia; nevertheless, a member has a duty to familiarize himself with his benefit pamphlet. General statements about poor member understanding tend, however, to over-simplify matters since knowledge varies within a system and between systems. As a rule, younger members do not appear to have a good understanding of retirement benefits. This is hardly surprising since a younger member embarking upon a career is not likely to be overly concerned about his retirement, and will make little, if any, effort to familiarize himself with the benefit pamphlet. The younger member is more likely to view his retirement contribution as an unwanted encumbrance. Obviously, an older member approaches the retirement plan from a different perspective -- advancing age has a way of increasing one's appreciation of such matters as retirement, disability and survivorship benefits.

It also appears that knowledge of retirement benefits is better among members of limited coverage plans than in the general coverage plan (PERS). This situation may be explained either by the generally higher educational background of some members (TPAF and JRS) or, in the case of law-enforcement systems (PFRS, CPF, SPRS, POPF), because employee organizations operating as fraternal or benevolent societies keep their membership well-informed.

Second, the Special Committee does not believe that the level of information and type of counselling taking place in the personnel offices of the employer is of uniform quality. These offices are the first contacts which the member has when dealing with retirement matters, and on the basis of reports received it appears erroneous information has been conveyed by some of these offices to members. This Committee realizes that the Division of Pensions has no supervisory power over these offices; it also understands that the large number of information check-points -- 1600 for PERS alone -- will result in different qualities of information services. Furthermore, we appreciate the fact that the Division of Pensions conducts regional seminars to improve the information services of local personnel offices, and that personnel officers are instructed to direct inquiries which they cannot handle to the Division of Pensions. All of this notwithstanding, the problem continues.

Third, the Special Committee questions whether or not the distribution of the benefit pamphlet, with periodic supplements, exhausts the possibilities of familiarizing members with their retirement benefits. Certainly, there is a recognition that the Division of Pensions works with very limited resources, nevertheless, this Special Committee believes some improvements could be made which would have a beneficial effect.

One area of improvement would be that in addition to an annual financial statement, each member should annually receive a brief statement highlighting the basic benefit structure of the retirement system, and informing him of his rights with respect to purchasing temporary and previous service, optional retirement settlements, supplemental annuity, vesting and transfer of credit between State-administered systems. The annual statement of benefits should not be exhaustive, but, rather, serve as a notice to the member of his rights, and direct him to where he may seek additional information. We also believe that the annual financial statement issued to each member should summarize his years and months of creditable service. This information is presently provided in some systems and should be extended to all. We think this will serve as an important check on the Division of Pension's own record keeping services. The Special Committee further recognizes that as members become more familiar with their retirement systems, their demand for more information will increase. In this vein, a modest expansion of the Division of Pension's counselling service is appropriate.

The Special Committee, therefore, recommends that the Legislature make an appropriate increase in the annual budget of the Division of Pensions so that it may be directed to do the following:

(1) Prepare a brief statement of benefits to be distributed annually to each member of the State-administered retirement systems;

(2) Provide that the annual financial statement issued to each member of a State-administered retirement system set forth the years and months of service credit earned to date;

(3) Expand the Division of Pension's counselling service.

II

The Special Committee also reviewed the avenues available to a member of a State-administered retirement system to correct an administrative oversight, challenge an administrative ruling, or resolve a disputed claim concerning his pension interests. It wished to discern what procedures exist to safeguard a member's rights.

When a member has a complaint about a pension matter which is an issue of fact he informs the Division of Pensions which will handle the matter directly, or refer it to the board of trustees or pension commission for its decision. In the event the Division of Pensions handles the matter and the member disagrees with its decision, he may appeal to the board or commission. A member may also contest a board or commission decision by having the matter brought before the Hearing Officer of the Division of Pensions. At the hearing, the member is entitled to bring counsel. Upon completion of the hearing, the Hearing Officer transmits a copy of the transcript and his recommendation to the board or commission, which may or may not accept it. Whichever the case, the board's or commission's decision is final. [3]

On their face, these appeal procedures are satisfactory, but it is evident that the latitude of both the Division of Pensions and the board or commission in this area is limited by statutory and case law, opinions of the Attorney General, and the rules, regulations, and previous decisions of the retirement system. Furthermore, only issues of fact and not of law can be submitted for review. Due to these limitations on administrative discretion, a member may very well be forced to seek relief in the Courts for an error which was not of his doing. The costs of obtaining legal services may be prohibitive for some members, thus possibly denying them their pension rights.

The Special Committee hesitates to recommend a broadening of the administrative power of either the Division of Pensions or the board of trustees or pension commission to grant relief in these matters. This subject deserves further study and might very well be the first order of business upon the establishment of the previously recommended joint legislative committee.

III

Finally, the Special Committee sought to determine whether or not any significant differences, exclusive of retirement benefits, exist between systems, so that members of one system enjoy advantages or privileges not available to members of other systems. Focus was directed upon member contribution rates and provisions governing the purchase of credit for previous employment service.

As Table 9 (p. 83) demonstrates, member contribution rates vary from system to system. The Consolidated Police and Firemen's Pension Fund, Prison Officers Pension Fund and State Police

Retirement System utilize a flat rate of contribution. For members of the Police and Firemen's Retirement System and law enforcement officers enrolled in the Public Employees' Retirement System, a sliding scale is employed in which contribution rates are determined by age at the time of enrollment. In the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System a sliding scale is also used in which the member's age at time of enrollment and sex determine contribution rates.

The Special Committee recognizes that differences in contribution rates between systems partly reflect the different benefit structures. Nevertheless, in reviewing the benefit plans of the law enforcement retirement systems, the Special Committee notes that contribution rates of CPF and POPF members are for the most part lower than those of PFRS and SPRS, and yet the retirement benefits are essentially comparable. Since the CPF and POPF are closed to new membership and have relatively few active members, the Special Committee will make no recommendation on this matter.

A review of the major retirement systems of other States shows that few utilize sliding scale contribution rates, but, rather, have adopted a flat rate. (See Appendix Table 2.) The use of sex or age to determine contribution rates stems from the fact that when PERS, TPAF, and PFRS were established, they were designed along an insurance model in which it can be statistically demonstrated that these factors are valid distinctions in determining the value of the benefit. The Special Committee believes that recent court decisions with respect to sex discrimination and changing community attitudes necessitate the discontinuance of the use of sex as a determinant of a member's contribution rate.[4] Logically, it would follow that age should also be abandoned in calculating contribution rates and a flat rate adopted; however, until an assessment is made of the fiscal impact of this changeover that is, what it means to both member and employer contribution rates, we are not prepared to make a recommendation. We do note, however, that such information could be made available when calculations are made to adjust male and female contribution rates. The Special Committee, therefore, recommends that the contribution rates of men and women in the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund be equalized.

With respect to an employee's eligibility to purchase credit for previous employment and membership service, the Special Committee finds that there are some disturbing differences among the State-administered systems, as well as the need for some general improvements. The Committee did not attempt to deal with every facet of this area. In reviewing the many different purchase provisions of the State-administered systems, the hope of striking a semblance of uniformity was dampened by the recognition

Table 9 *

Rate of Contribution as a Percentage of Salary for Members of State-Administered Retirement Systems.

	Age	Male	Female
PERS (general employees)	20	4.80%	5.27%
	25	4.91	5.51
	30	5.19	5.85
	35	5.59	6.30
	40	6.04	6.81
	45	6.55	7.39
	50	7.12	8.02
	55	7.84	8.83
	Age	**Rate**	
PERS (law enforcement)	20	5.67%	
	25	6.25	
	30	7.07	
	35	8.00	
	40	8.67	
	45	9.21	
	50	9.63	
	55	9.91	
	Age	**Male**	**Female**
TPAF	20	4.80%	5.27%
	25	4.91	5.51
	30	5.19	5.85
	35	5.59	6.30
	40	6.04	6.81
	45	6.55	7.39
	50	7.12	8.02
	55	7.84	8.83
	Age	**Rate**	
PFRS	20	6.73%	
	25	7.25	
	30	7.88	
	35	8.32	
	40	8.74	
	45	9.20	
	50	9.55	
	55	9.62	
SPRS	7%		
POPF	6%		
CPF	6%		

*Source: New Jersey Public Employee Benefit Manual, 1976.

that some of these measures are appropriate to the individual system for reasons unique to its development and membership. There are, however, a number of instances where either uniform purchase provisions should be adopted or present purchase provisions modified.

One area which the Committee dealt with is the opportunity of a member of a State-administered system to receive credit for membership service earned in another State system. Under the provisions of the Transfer Act (C.43:2-1 et seq.), full reciprocity exists among New Jersey State-administered retirement systems. When a member of a State system changes employment and is required to enroll in a different State system, he may at the time of enrollment make application to transfer his contributions from the former to the latter and thus receive full membership credit. The employee is informed of this privilege on his enrollment application. Failure to make application for transfer, coupled with the withdrawal of contributions from his former system, will bar an employee from subsequently purchasing his previous service. An exception to this general rule exists between the Public Employees Retirement System and Teachers' Pension and Annuity Fund. A member of either system is free to purchase service credit earned in the other even if he has withdrawn his contributions. This special purchase privilege is denied to all other members of State-administered systems. For example, a person changing systems from PFRS to PERS, or TPAF to PFRS, or POPF to TPAF may take advantage of the transfer provision, but if he withdraws his contributions, he may not at a later date purchase credit for his previous service. There appears to be no rational basis for limiting this privilege to a select group, and the Special Committee believes the opportunity to purchase previous service credited in a State-administered system should be extended to each member of every State system.

In a related area, the Special Committee believes that reciprocity should also exist among State systems and municipal and county systems. No transfer provision similar to that for State systems exists between State-administered systems, on the one hand, and local retirement systems, on the other. Thus, a public employee who changes positions and is required to leave his local system and enroll in a State system or vice-versa can neither transfer his contributions, nor, at a later time, purchase credit for his previous employment service. The Special Committee recognizes that the growth of local employer participation in the State-administered systems, and the phasing out of county and municipal systems, will minimize the number of persons in this type of situation. Nevertheless, the Special Committee believes that transfer of contributions and purchase of credit for previous membership service should be permitted among all State, county and municipal systems established under the laws of New Jersey.

The Special Committee has reviewed the privilege extended to members of PERS, TPAF, and SPRS to purchase credit for certain types of official leaves of absence without pay. This purchase privilege extends to three types of leaves: (1) up to two years for a leave granted for personal illness; (2) up to two years for maternity leave ; and, (3) up to three months for a leave granted for personal reasons. A request to purchase a leave of absence must be made within the first year of a member's return to active service. The Special Committee believes this privilege should be extended to all State-administered retirement systems.

The Special Committee also focused upon an administrative rule promulgated by the Board of Trustees of the Public Employees' Retirement System (NJAC 17:2-2.3) which makes certain public employees ineligible for enrollment if they are not paid in each calendar quarter. These persons are ineligible for membership in PERS even though they may be employed for an entire year and their salaries satisfy the minimum annual amount established by law ($500.00). Often, because their salaries are small, such persons may elect to receive compensation annually or semi-annually, without being fully aware of the implications which this method of payment has on their eligibility to enroll in PERS. Even when the method of payment is adjusted to comply with the administrative rule and the person enrolls in PERS, he is barred from purchasing his previous service since this employment is not deemed creditable service.

The Special Committee has serious doubts about the wisdom of this rule as it is applied in this case, and it believes that the Board of Trustees has stretched the intent of the Legislature when it bars regular employees from enrollment because of the manner of payment. The Special Committee is hesitant at this time to deal with this matter legislatively, but the Board of Trustees is strongly encouraged to reconsider this rule.

With respect to those persons who were barred from enrollment because of this rule, and who have since become members of PERS, the Special Committee believes they should be permitted to purchase their previous service. Application for such purchase should be made during the first year of membership and should apply only to service previously deemed ineligible because of method of payment. The conditions of the purchase are to be the same as those governing other purchases of previous service.

A final area studied was the privilege existing in most systems permitting a member to purchase credit for his previous temporary service. The present provision in the applicable State-administered systems permits a member to purchase credit for temporary service rendered without interruption to his current employer before his permanent appointment, provided that application for purchase is made within the first year of permanent employment. The terms of purchase are favorable to the member and are based upon his normal rate of contribution and salary received at the time he elects to make the purchase. Failure to make this purchase in his first year of membership bars the member from ever receiving credit for his temporary service. The Special Committee believes that a member should be able to purchase his temporary service at any time during his permanent employment, but it recognizes that the conditions of purchase must be consistent with sound actuarial principles to prevent a member from receiving a windfall benefit. The conditions of purchase should, therefore, be identical to those governing other purchases of previous service.

Also with respect to temporary service, the Special Committee understands that a person employed as a temporary employee in a classified position covered by the Public Employees' Retirement System, is ineligible for enrollment in the retirement system regardless of how long he holds that position. It is not unusual for a person to remain a temporary employee for a number of years before being re-classified as permanent. As a temporary employee, he is not entitled to the benefits of the retirement system, including disability and death benefits, and he does not accumulate service credit. Although the Special Committee has recommended in this report that a member be allowed to purchase certain temporary service at any time during his membership, we also believe that after a temporary employee completes a full year of employment on a continuous basis he should be enrolled in the retirement system.

This study has touched upon some of the areas dealing with the purchase of previous service, but it has avoided others because further investigation is necessary. When reviewing this matter, the Special Committee concluded that the State-administered systems ought to be moving in the direction of allowing their members the opportunity to purchase credit for all service rendered in behalf of the State of New Jersey, its political subdivisions and instrumentalities. The recommendations set forth below are consistent with this position and are proposed for the purpose of moving these systems closer to this end.

The Special Committee recommends that the Legislature consider the following:

(1) Permit a member of any State-administered retirement system to purchase previous membership service credited in any other State-administered retirement system established under the laws of New Jersey.

(2) Enact a transfer of contributions provision between State-administered retirement systems and the county and municipal pension funds established under the laws of New Jersey to permit a person to receive credit for his previous membership service.

(3) Permit a member of any State-administered retirement system, or a county or municipal pension fund established under the laws of New Jersey, to purchase previous membership service earned in any of these retirement systems or pension funds.

(4) Extend the privilege of purchasing retirement credit for certain types of official leaves of absence to members of all State-administered retirement systems.

(5) Permit a member of any State-administered retirement system to purchase credit for temporary service at any time during his membership.

(6) Require the enrollment in the Public Employees' Retirement System of any person serving in a temporary position covered by the retirement system if such person completes one full year of employment on a continuing basis.

(7) Enact legislation to permit any member of the Public Employees' Retirement System to purchase credit for certain previous service rendered in a position covered by the retirement system but for which he was considered ineligible for enrollment because the manner in which he was compensated did not conform to an administrative rule (NJAC 17:2-2.3) of the Board of Trustees. Under this rule any person, except an elected official, is ineligible for membership in PERS if he is not paid in each calendar quarter even though he may be a regular full-time employee and meets all statutory provisions for enrollment. The Special Committee believes the Board of Trustees has stretched the Legislature's intent when it barred these employees from enrollment, and it believes such persons should be given the opportunity to purchase this service.

The Special Committee also recommends that the Board of Trustees of the Public Employees' Retirement System reconsider its administrative rule (NJAC 17:2-2.3) denying enrollment in the retirement system to any person, except an elected official, who is not paid in each calendar quarter.

FOOTNOTES TO SECTION IV

1. The functions and organization of the Division of Pensions and the responsibilities of the respective boards of trustees and pension commissions are set forth in: State of New Jersey, Department of Treasury, Division of Pensions, New Jersey Public Employee Benefit Manual (Trenton, 1976), pp. 18-35.

2. State of New Jersey, Office of Fiscal Affairs, New Jersey's Contributory Public Employee Pension Programs: Program Analysis of the Public Employees' Retirement System (Trenton, 1976), pp. 143-241. For an additional survey of attitudes of retirants of the Public Employees' Retirement System, see: State of New Jersey, Office of Fiscal Affairs, Survey of Retired State Employees: A Background Paper on the Public Employees' Retirement System (Trenton, 1977), passim.

3. Division of Pensions, New Jersey Public Employee Benefit Manual, p. 133.

4. Michael Evan Gold, "Equality of Opportunity in Retirement Funds" Loyola of Los Angeles Law Review, Vol. 9, June 1976, pp. 596-636.

APPENDIX A - Benefit Provisions of New Jersey State-Administered Retirement Systems

Vocational	System	Benefit
General Public Employees	Public Employees Retirement System (non-law enforcement officers)	1. Retirement Age Service: 60 Mandatory: 70
	(law enforcement officers)	55 65
Teachers	Teachers' Pension and Annuity Fund	60 71
Law Enforcement and Security	Consolidated Police & Firemen's Fund	active members - 51 65 & 25yrs. employee members - 60 70 & 25yrs.
	Police & Firemen's Retirement System	55 65
	Prison Officers' Pension Fund	55 none
	State Police Retirement System	enrolled before 7/1/65: 50; 7/1/65: 55 & 25 yrs. enrolled after 6/30/65: 55; 6/30/65: 65
Chief Justice and Associate Justice, of Supreme Court; any Judge of the Superior Court, County Court, County District Court, Juvenile and Domestic Relations Court	Judicial Retirement System	60 70
	Public Employees Retirement System (non-law enforcement officers)	2. Service Retirement Allowance Annual allowance of 1/60 (Class B) or 1/70 (Class A) x final av. salary (last 3 or highest 3 yrs.) x yrs. of service. Deferred retirement permitted after 15 yrs., payable at age 60. Early retirement permitted after 25 yrs., but allowance decreased 1/4% for each month under age 55.

APPENDIX A (Cont'd.)

	System	Benefit
	Public Employees Retirement System (non-law enforcement officers) cont'd.	Special veteran's retirement on annual allowance equal to 1/2 of final salary after 20 yrs. of N.J. service at age 60 if an active member (age 62 if membership began after January 2, 1955 or if not continuous).
	Public Employees Retirement System (law enforcment officers)	After 20 yrs. service as law enforcement officer, annual allowance of 2% x final av. salary (last 3 or highest 3 yrs.) x yrs. of service up to 25 as law enforcement officer, plus 1/2/3% x such salary x yrs of service as non-law enforcement officer. Deferred retirement permitted after 15 yrs., payable at age 60. Special veteran's retirement on annual allowance equal to 1/2 of final salary (last yr) after 20 yrs. of N.J. service at age 60 if an active member (age 62 if membership began after January 2,1955 or if not continuous).
	Teachers' Pension and Annuity Fund	Annual allowance of 1/60 (Class B) or 1/70 (Class A) x final av. salary (last 3 or highest 3 yrs.) x yrs. of service. Deferred retirement permitted after 15 yrs, payable at age 60. Early retirement permitted after 25 yrs., but allowance decreased 1/4% for each month under age 55. Special veteran's retirement on annual allowance equal to 1/2 of final salary after 20 yrs of N.J. service at age 60 if an active member (age 62 if membership began after Jan. 2, 1955 or if not continuous).

APPENDIX A (Cont'd.)

	System	Benefit
	Consolidated Police & Firemen's Pension Fund	After 25 yrs. service annual pension of 2% x final av. salary x yrs. of service up to 30 + 1% x such salary x yrs. of service over 30, prior to age 65.
	Police and Firemen's Retirement System	After 25 yrs. service, annual allowance of 2% x final av. salary x yrs. of service up to 30 plus 1% x such salary x yrs. of service over 30 or, if greater, annual allowance of 1/60 x final av. salary x yrs of service. Deferred retirement permitted after 15 yrs, payable at age 55. Special retirement permitted after 25 yrs, payable at any age.
	Prison Officers' Pension Fund	After 20 yrs. service annual pension of 1/2 of salary at time of retirement or, if greater, 2% x av. final compensation x yrs. of service up to 30 + 1% x such salary x yrs. of service over 30 prior to age 65. Deferred retirement permitted after 15 yrs., payable at age 55. Special retirement permitted after 25 yrs., payable at any age.
	State Police Retirement System	Enrolled before 7/1/65 - After 20 yrs. service as a State policeman, annual allowance of 1/2 of final compensation (salary + maintenance in final yr) + 1% of final compensation for each yr. of service over 25. Enrolled after 6/30/65 - Annual allowance of 2% x final compensation (salary + maintenance in final yr) x yrs. of service up to 25 yrs. + 1% x final compensation x yrs. of service over 25.

APPENDIX A (Cont'd.)

	System	Benefit
	State Police Retirement System (Cont'd.)	Deferred retirement permitted after 15 yrs., payable at age 55. Early retirement permitted after 25 yrs., but allowance actuarially reduced for each month under age 55.
	Judicial Retirement System	Age 70 and 10 yrs. of service, or age 65 and 15 yrs. of service, or age 60 and 20 yrs. of service, annual allowance of 3/4 of final salary. Age 65 and 5 yrs. Judicial service, 15 yrs. State service in aggregate, or age 60 and 5 yrs. Judicial service, 20 yrs. State service in aggregate, annual allowance of 1/2 final salary. Age 60 and 5 yrs. Judicial service, 20 yrs State service in aggregate, or age 60, annual allowance of 2% x final salary x yrs. of service up to 25 yrs. plus 1% x final salary x yrs. of service over 25. Early retirement permitted after 25 yrs. of State service, including 5 yrs. Judicial service, annual allowance of 2% x final salary x years of service up to 25 yrs. + 1% x final salary x yrs. of service over 25. Allowance decreased for each month which member is under age 60. Deferred retirement permitted after 15 yrs. of State service, including 5 yrs. Judicial service, annual allowance of 2% x final salary x yrs. of service up to 25 yrs. + 1% x final salary x yrs. of service over 25. Payments to begin at age 60.

APPENDIX A (Cont'd.)

System	Benefit	
	Ordinary Disability	Accidental Disability
Public Employees Retirement System (non-law enforcement officers)	Under age 60, after 10 yrs. credit for N.J. service, annual allowance of 1 1/2% x final av. salary x yrs. of service (minimum of 40% x final av. salary; maximum of 9/10 x service retirement allowance).	Under age 65, annual pension of 2/3 salary at time of accident.
(law enforcement officers)	Under age 60, after 5 yrs. credit for N.J. service, annual allowance of 1 1/2% x final av. salary x yrs. of service (minimum of 40% x final av. salary; maximum of 9/10 x service retirement allowance).	Under age 65, annual pension of 2/3 salary at time of accident.
Teachers' Pension and Annuity Fund	Under age 60, after 10 yrs. credit for N.J. service, annual allowance of 1 1/2% x final av. salary x yrs. of service (minimum of 40% x final av. salary; maximum of 9/10 x service retirement allowance).	Under age 65, annual pension of 2/3 salary at time of accident.
Consolidated Police & Firemen's Pension Fund	Annual pension of 1/2 of av. salary (av. of last 3 yrs.).	Annual pension of 2/3 of av. salary (av. of last 3 yrs.).
Police & Firemen's Retirement System	After 5 yrs. membership, annual allowance of 1 1/2% x final av. salary x yrs. of service (minimum of 40% x final average salary).	Annual pension of 2/3 salary at time of accident.
Prison Officers' Pension Fund	Annual pension of 1/2 of av. final compensation.	Annual pension of 2/3 of av. final compensation (av. of last 3 yrs.).
State Police Retirement System	After 4 yrs. service as a State policeman, annual allowance of 1 1/2% x final yr.'s salary and maintenance x yrs. of service (minimum of 40% x final compensation).	Annual pension of 2/3 final yr.'s salary and maintenance.
Judicial Retirement System	No distinction between ordinary and accidental disability. Annual pension equal to 3/4 of final salary.	

APPENDIX A (Cont'd.)

System	Benefit: Nonservice-Connected Death Before Retirement	Benefit: Service-Connected Death Before Retirement
Public Employees Retirement System (non-law enforcement officers)	1 1/2 (3/16 if age 70) x last yr.'s salary + return of contributions; + contributory insurance, if purchased.	Annual pension of 1/2 of last yr.'s salary to dependent widow, widower, or 3 children under 18; for fewer children or dependent parents, a lesser annual pension (if no dependent widow, widower, parents, or children under 18, and as a minimum benefit, a refund of member's contributions); + non-contributory insurance of 1 1/2 x last yr.'s sal. (3/16 salary for members age 70); + contributory insurance if purchased.
(law enforcement officers)	1 1/2 (3/16 if age 70) x last yr.'s salary + return of contributions; plus contributory insurance, if purchased.	Annual pension of 1/2 of last yr.'s salary to dependent widow, widower, or 3 children under 18; for fewer children or dependent parents, a lesser annual pension (if no dependent widow, widower, parents or children under 18, and as a minimum benefit, a refund of member's contributions); + non-contributory insurance of 1 1/2 x last yr.'s sal. (3/16 salary for members age 70); + contributory insurance if purchased.
Teachers' Pension & Annuity Fund	1 1/2 (3/16 if age 70) x last yr.'s salary + return of contributions; + contributory insurance, if purchased.	Annual pension of 1/2 of last yr.'s salary to dependent widow, widower or 3 children under 18; for fewer children or dependent parents, a lesser annual pension (if no dependent widow, widower, parents or children under 18, and as a minimum benefit, a refund of member's contributions); + non-contributory insurance of 1 1/2 x last yr.'s salary (3/16 salary for members age 70); + contributory insurance if purchased.

APPENDIX A (Cont'd.)

System	Benefit: Nonservice-Connected Death Before Retirement	Benefit: Service-Connected Death Before Retirement
Consolidated Police & Firemen's Pension Fund	Annual pension of 1/2 of av. salary (av. of the last 3 yrs.) to dependent widow or widower and 2 children under 18; for fewer children or dependent parents, a lesser annual pension (minimum of $2,500 to widow).	Annual pension of 1/2 of av. salary (av. of the last 3 yrs.) to dependent widow or widower or 3 children under 18; for fewer children or dependent parents, a lesser annual pension (minimum of $2,500 to widow).
Police & Firemen's Retirement System	3 1/2 x last yr.'s salary; + return of contributions.	Annual pension of 1/2 last yr.'s salary to dependent widow or widower or 3 children; for fewer children or dependent parents, a lesser annual pension; + 3 1/2 x last yr.'s salary.
Prison Officers' Pension Fund	Annual pension of 1/2 of final av. salary to widow or dependent widower and 2 children under 18 or disabled; for fewer children or dependent parents, a lesser annual pension (minimum of $1,600 to widow or dependent widower).	Annual pension of 1/2 of final av. salary to widow or dependent widower and 2 children under 18 or disabled; for fewer children or dependent parents, a lesser annual pension (minimum of $1,600 to widow or dependent widower).
State Police Retirement System	Members enrolled before 7/1/65 - annual pension of 1/2 last yr.'s salary and maintenance to dependent widow or 3 children; for fewer children or dependent parents, a lesser annual pension; + 3 1/2 x last yr.'s salary. Members enrolled after 6/30/65 - annual pension of 1/2 of last yr.'s salary and maintenance to dependent widow and 2 children; for fewer children or dependent parents, a lesser annual pension; + 3 1/2 last yr.'s salary.	Annual pension of 1/2 last yr.'s salary and maintenance to dependent widow or 3 children; for fewer children or dependent parents; a lesser annual pension; + 3 1/2 x last yr.'s salary.
Judicial Retirement System	Annual pension of 1/2 final salary to dependent widow or widower and 2 children under age 18; a lesser annual pension if no dependent widow, or widower, or children under 18; + lump sum payment equal to 1 1/2 x final yr.'s salary.	

APPENDIX A (Cont'd.)

System	Benefit		
	5. DEATH AFTER RETIREMENT, WITHDRAWAL, AND RATE OF CONTRIBUTION		
	Death After Retirement	Withdrawal	Rate of Contribution
Public Employees Retirement System (non-law enforcement officers)	After 10 yrs., 3/16 x last yr.'s salary + any optional settlement specified by member at time of retirement.	Return of contributions. 2% interest upon termination after 3 yrs.' membership.	Age / *Male / *Female 20 4.80 5.27 25 4.91 5.51 30 5.19 5.85 35 5.59 6.30 40 6.04 6.81 45 6.55 7.39 50 7.12 8.02 55 7.84 8.83
(law enforcement officers)	After 10 yrs., 3/16 x last yr.'s salary + any optional settlement specified by member at time of retirement.	Return of contributions. 2% interest on termination after 3 yrs.' membership.	Age / *Rate 20 5.67 25 6.25 30 7.07 35 8.00 40 8.67 45 9.21 50 9.63 55 9.91
Teachers' Pension & Annuity Fund	After 10 yrs., 3/16 x last yr.'s salary (7/16 if covered by contributory insurance at retirement) + any optional settlement specified by member at time of retirement.	Return of contributions. 2% interest upon termination after 3 yrs.' membership.	Age / *Male / *Female 20 4.80 5.27 25 4.91 5.51 30 5.19 5.85 35 5.59 6.30 40 6.04 6.81 45 6.55 7.39 50 7.12 8.02 55 7.84 8.83
Consolidated Police & Firemen's Pension Fund	Annual pension of 1/2 final av. salary (av. of last 3 yrs.) to dependent widow or widower and 2 children; lesser pension to fewer children (minimum of $2,500 to widow).	None.	6% of salary.
Police & Firemen's Retirement System	Annual pension of 50% av. final compensation to dependent widow or widower and 2 children (minimum $2,500 to widow); lesser pension to fewer children; + 1/2 after 10 yrs. x last yr.'s salary.	Return of contributions upon termination of service.	Age / *Rate 20 6.73 25 7.25 30 7.88 35 8.32 40 8.74 45 9.20 50 9.55 55 9.62

*Includes Social Security contribution of 2% of base salary up to maximum wages covered by Social Security.

APPENDIX A (Cont'd.)

System	Benefit		
	Death After Retirement	Withdrawal	Rate of Contribution
Prison Officers' Pension Fund	Annual pension of 1/2 of av. salary to widow or dependent widower and 2 children under 18 or disabled; for fewer children, a lesser annual pension (minimum of $1,600 to widow or dependent widower).	Return of contributions upon termination of service.	6% of salary.
State Police Retirement System	Enrollment before 7/1/65 - annual pension of 1/2 last yr.'s salary to dependent widow or 3 children under 18; a lesser annual pension to fewer children; + after 10 yrs. 1/2 x last yr.'s salary. Enrolled after 6/30/65 - annual pension of 50% last yr.'s salary and maintenance to dependent widow and 2 children; lesser pension to fewer children; + after 10 yrs. 1/2 x last yr.'s salary.	Return of contributions upon termination of service.	7% of salary.
Judicial Retirement System	After 10 yrs. of service, annual pension of 1/2 final salary to dependent widow or widower and 2 children under 18 yrs; lesser annual pension if no dependent widow or widower, or children under 18 yrs; + lump sum equal to 1/4 of final yr's. salary.	None.	Non-contributory.

*Includes Social Security contributions of 2% of base salary up to maximum wages covered by Social Security.

ASSEMBLY CONCURRENT RESOLUTION No. 51

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1976 SESSION

By Assemblyman PELLECCHIA

A CONCURRENT RESOLUTION to reconstitute and continue a special committee to study, investigate, and report on public pension programs created by Assembly Concurrent Resolution No. 3022 of the 1975 Legislature.

BE IT RESOLVED *by the General Assembly of the State of New Jersey (the Senate concurring):*

1. The special committee to study, investigate, and report on public pension programs, created pursuant to Assembly Concurrent Resolution No. 3022 of the 1975 Legislature, is hereby reconstituted and continued with the same method of selecting membership, powers, and duties as heretofore provided.

2. Any vacancy in the membership of the special committee shall be filled in the same manner as the original appointments were made.

3. The time provided in Assembly Concurrent Resolution No. 3022 of the 1975 Legislature to report its findings and recommendations to the Legislature shall be extended from January 8, 1976, to on or before January 10, 1978.

STATEMENT

The purpose of this resolution is expressed in its title.

[OFFICIAL COPY REPRINT]

ASSEMBLY CONCURRENT RESOLUTION No. 3022

STATE OF NEW JERSEY

INTRODUCED APRIL 24, 1975

By Assemblymen PELLECCHIA and HICKS

(Without Reference)

A CONCURRENT RESOLUTION establishing a special committee to study, investigate, and report on public pension programs and to make recommendations thereon.

WHEREAS, The Legislature of the State of New Jersey has, over the years, deemed it fitting to enact legislation providing pension benefits and retirement allowances to broad classes of State, county, and municipal employees and their survivors; and

WHEREAS, The Legislature has periodically extended to pensioners and their survivors a broader range of benefits in consideration of changes in economic circumstances and conditions; and

WHEREAS, In this period of inflation and economic uncertainty it is incumbent upon the Legislature to objectively review the existing pension laws compiled in Titles 40 and 43 of the Revised Statutes and Title 18A of the New Jersey Statutes, and all enacted and proposed amendments and supplements thereto, in light of both the needs of the pensioners and their survivors as well as the implicit requirements of such laws and proposals on the State, county and municipal governments; now, therefore

BE IT RESOLVED *by the General Assembly of the State of New Jersey (the Senate concurring):*

1. There is hereby created a special committee to consist of nine members as follows: the chairmen of the Senate County and Municipal Government Committee, the Senate State Government and Federal and Interstate Relations Committee, and the Senate Education Committee, and the chairmen of the Assembly Municipal Government Committee, the Assembly County Government Committee, the Assembly State Government, Federal and Interstate Relations Committee, and the Assembly Education Committee and

a member of the minority party in the General Assembly appointed by the Speaker thereof, and a member of the minority party of the Senate appointed by the President thereof. *_The chairman of each of the said committees is authorized to appoint a member of his committee to act as his representative on the special committee._* Vacancies shall be filled in the same manner as the original appointments were made.

2. The committee shall organize, as soon as possible, after the appointment of its members and shall select a chairman from among its members and a secretary who need not be a member of the committee.

3. It shall be the duty of said committee to study, investigate and report to the Legislature on the administration of public pension programs pursuant to Titles 40 and 43 of the Revised Statutes and Title 18A of the New Jersey Statutes and to examine such legislative proposals as are related to the public pension programs compiled in said Titles 18A, 40 and 43 in light of the needs of pensioners and their survivors in an inflated and uncertain economy and in terms of the fiscal capacity of the State, county and municipal governments to meet such needs.

4. The committee shall be entitled to call to its assistance, and avail itself of the services of the members and any employees of any State, county or municipal department or agency as it may require and as may be available to it for said purposes, and to employ such stenographic and clerical assistants and incur such traveling and other miscellaneous expenses as it may deem necessary in order to perform its duties, and as may be within the limits of funds appropriated or otherwise made available to it for said purposes.

5. The committee may meet and hold hearings at such place or places as it shall designate during the sessions or recesses of the Legislature and shall report its findings and recommendations to the Legislature on or before January 8, 1976, accompanying the same with any recommendations and legislative bills which it deems appropriate for adoption by the Legislature.

APPENDIX - Table 1

Age and Service Requirements for Retirement and Formulas Used to calculate Benefits in General Coverage Plans of State Systems and Selected State Consolidated Police and Firemen's Systems.

	Benefit Formula	Age & Service Requirements
Alabama	Money purchase or 2.0125% of Final Average Salary (FAS) (best 3 of last 10 yrs) X YOS (yrs of service). Police: 2.875% of FAS X YOS.	Age 60; mandatory at 70 or after 30 yrs service. Police: Age 52, mandatory at 60 or after 30 yrs service.
Alaska	2% of FAS (avg monthly salary during high three yrs) X YOS. Police/Fire: 2% of FAS X 1st 10 YOS + 2.5% of FAS X remaining YOS	Age 55 w/ 5 yrs service or 30 yrs service at any age. Police/Fire: 55 w/ 5 yrs service of 20 yrs service at any age.
Arizona	(avg of high 5 in last 10 yrs) 1.25% of FAS for service before 7/1/67 + 2% for service after date.	Age 65 Age 50 w/ 20 yrs service or 62 w/ 5 yrs service with reduced benefits.
Arkansas	1.8% of 1st $6600 of high 5 of last 10 YOS X YOS prior to 7/1/69 + 1.8% of FAS (high 5 of last yrs) X YOS after 7/1/69.	Age 65 w/ 10 yrs service or 60 and 20 yrs service.
California	2% of salary X YOS, at 60 Safety: 2% X YOS or 1/2 pay at 55 Patrol: 2% of salary X YOS.	Age 60 for reg. employees Age 55 for safety employees AGE 50 for patrol employees
Colorado	2.5% of FAS (avg of high 5 yrs) through 1st 20 yrs 1% of FAS 20 through 40 yrs.	Age 65 w/ 5 yrs service Age 60 w/ 20 yrs service Age 55 w/ 30 yrs service
Connecticut	50% of FAS (avg of high 3 yrs) after 25 yrs + 1/12 of 2% for each additional month.	Age 70 w/ 5 yrs service Age 65 w/ 10 - 25 yrs servic Age 55 w/ 25 yrs service
Delaware	1/60 of FAS (avg of high 5 yrs) X YOS	Age 65 w/ 5 yrs service Age 60 w/ 15 yrs service Any age w/ 30 yrs service
Florida	1.6% of FAS (avg of best 5 of last 10 yrs) for each yr to age 62. 1.63% for each yr after 63. 1.65% for each yr after 64. 1.68% for each yr after 65.	Age 62 w/ 5% reduction for each yr under normal retirement age.
Georgia	1.18% of FAS (8 calendar quarter high avg above $350) for 1st yr, increasing .03% each year thereafter X YOS.	Age 65 w/ 10 yrs service Any age w/ 30 yrs service
Hawaii	2% of FAS (avg of high 3 yrs) X YOS.	Age 55 w/ 5 yrs service Any age w/ 25 yrs service

Source: National Conference of State Legislatures, Profiles of State Retirement Systems (Denver, 1976).

ɔle 1 (Cont'd.)

	Benefit Formula	Age & Service Requirements
aho	1-2/3% (police & fire 2%) of avg monthly salary (1/60 of highest period of 60 consecutive months) X months of service.	Age 65 w/ 5 yrs service (60 police & fire)
linois	1.67% of FAS for each of 1st 10 yrs 1.90% of " " " " 2nd " " 2.10% " " " " " 3rd " " 2.30% " " " " yr over 30 FAS = high 4 yrs w/i 10 yrs	Age 60 w/ 8 yrs service Any age w/ 35 yrs service
diana	Pension = to 1.1% of avg salary X YOS + annuity purchased member's contributions.	Age 65 w/ 10 yrs service
·wa	40% of FAS (avg of high 5 yrs) based on 30 YOS or fractional amount for service under 30 yrs.	Age 65 w/ no length of service requirement
ınsas	1-1/4% of FAS X YOS.	Age 65
ıntucky	1.6% of FAS (avg of high 5 yrs) X YOS Police: 2.15% of FAS X YOS	Age 65 w/ 4 yrs service Age 55 w/ 5 yrs service for police
›uisiana	2.5% of FAS (avg of high 3 yrs) X YOS + $300.	Age 60 w/ 10 yrs service Age 55 w/ 25 yrs service Any age w/ 30 yrs service
ıine	1/50 of FAS (avg of high 3 yrs) X YOS	Age 60
ıryland	1/55 of FAS (avg of high 3 yrs) X YOS Police: 1/45 of FAS for 1st 25 yrs, 1/90 of FAS for each yr thereafter.	Age 60 w/ 25 yrs service Police: 50 w/ 25 yrs service
ıssachusetts		Age 55 w/ 20 yrs service
ichigan	1.5% of FAS (avg of high 5 yrs) X YOS	Age 60 w/ 10 yrs service Age 55 w/ 30 yrs service
innesota	1% of FAS (avg of high 5 yrs) for each of 1st 10 yrs, 1.5% for subsequent yrs. Police: 2.5% of FAS for 1st 20 yrs, 2% thereafter.	Age 65 w/ 10 yrs service Police: 55 w/ 10 yrs service
ississippi	1.58% of FAS (avg of high 5 yrs) X YOS	Age 65 Any age w/ 30 yrs service
issouri	1.25% of FAS (avg of high 5 yrs) X YOS	Age 65 Age 60 w/ 15 yrs service
ontana	1/60 of FAS (avg of high 3 yrs) X YOS	Age 65 Age 60 w/ 5 yrs service Any age w/ 30 yrs service

Table 1 (cont'd.)

	Benefit Formula	Age & Service Requirements
Nebraska	Prior service: 1/2 of 1% of March 1963 salary X YOS. Future service benefit (money purchase) based on employee and employer contributions & interest.	Age 65
Nevada	2-1/2% of avg compensation for 1-20 yrs and 1-1/2% for 21-30 yrs. Maximum 65%.	Age 60 w/ 10 yrs service Age 55 w/ 30 yrs service
New Hampshire	1/60 of FAS X YOS not in excess of 30 + 1/120 of such compensation X YOS in excess of 30.	Age 60
New Jersey	1/60 each yr credited service X FAS (avg of last or high 3 yrs).	no minimum; normal - 60; compulsory - 70; no minimum money or service requirement if member had attained age 6(
New Mexico	2% X FAS X YOS; not to exceed 50%. State police & local police & fire who pay additional contribution = 2-1/2 X YOS. FAS is high 3 yrs. (FAS for reg. employee is highest 5 in last 10 YOS.	Any age w/ 30 or more yrs; a age 25 yrs at 4/10 of 1% redu tion, 20 @ 60, 17 @ 71, 14 @ 62, 11 @ 63, 8 @ 64 or 5 yrs @ age 65. Police & fire sam and in addition @ age 55 w/ 25 yrs service or any age if pay add. contributions.
New York	At age 55: 1. 20 or more YOS, 1/50 FAS X YOS; 19 or fewer YOS: 1/60 FAS X YOS 2. 25 or more YOS: 1/2 FAS + 1/60 FAS X YOS (25); 24 or fewer YOS: 1/60 FAS X YOS. 3. 1/60 FAS X YOS after 1938; 1/120 FAS X YOS pre-1938 service. 4. 1/60 FAS X YOS after 1960; 1/120 FAS X YOS pre-1960 service. 5. 1/120 FAS X YOS + ann provided by member contributions + pen incr-take-home-pay; 1/160 FAS X YOS for prior service.	For plans 1-4, member contributions prior to 4/1/60 are required. For plan 5, membe contributions are required.
North Carolina	FAS w/ 7 options. Annual benefit equal 1/5% of FAS X YOS. FAS is avg annual salary during 48 consecutive months of membership service producing highest such average.	Normal retirement at 65; unreduced service retirement w/ 30 or more yrs service; reduced service retirement a 60; reduced early retirement at 50 w/ 20 yrs.
North Dakota	Money purchase plan - annuity purchased at retirement; amount of annuity depends on employee account total, age, and option selected.	
Ohio	Age 65 or after 30 yrs; 2% (avg of 3 highest annual earnings) (no case less than $4300) X YOS. Under 65 or 30 YOS, benefit reduced by 3% per yr for each yr, age or service.	55 w/ 25 yrs or more; any ag w/ 30 yrs; 60 w/ 5 yrs or mo Compulsory at 70 (except by annual approval)

e 1 (cont'd.)

	Benefit Formula	Age & Service Requirements
ıhoma	Prior service benefits, effective 7/1/75 are $84 per yr X no. yrs prior service. Participating service benefits are based on FAS (avg. highest 5 of last 10 yrs - max. salary $15,000 annually) X 1.7% X YOS, effective 7/1/76.	Retirement ages: normal - 65; early: 62 with actuarial reduction (only w/ 10 yrs service)
ȝon	Employer pension 1% of FAS (high 3 of last 10 yrs) X YOS, plus money purchase employee annuity (all except police and/or fire); employer pension 1.35% of FAS X YOS, plus money purchase employee annuity for police and/or fire.	Age60; age 66 for police and/or fire
ısylvania	2% FAS for each YOS. FAS based on highest 3 yrs.	Age 60 or 35 yrs service. Early retirementafter 10 yrs service, prior to age 60 w/ actuarial adjustment for age. No mandatory retirement age.
de Island	1.7% for 1st 10 yrs; 1.9% for each yr from 11 to 20 yrs and 2.4% for each yr over 20. Maximum benefit of 80% of avg compensation is payable after completion of 38 YOS. FAS = salary for 3 highest consecutive yrs.	10 yrs service at age 60 30 yrs service at age 55, under 55 reduced allowance 35 yrs service at any age.
th Carolina	1.25% of 1st $4800 plus 1.65¢ above $4800 of the best 3 consecutive fiscal yrs of salary X YOS.	Age 60 or 30 yrs service; retirement mandatory at 70.
th Dakota	1% X salary (max. $6000) X YOS.	Normal - age 65, 10 yrs service Early - age 55, 20 yrs service
nessee	Group I - 1-1/3% FAS (high 5 yrs) less .005 of SSIL X YOS + 12 Group II - 2-1/4% FAS less .025 of SSIL X YOS + 12 Group III - 2-1/2% FAS less .025 of SSIL X YOS + 12.	Group I - age 60 or 30 yrs service Group II - age 60 or age 55 and 25 yrs service Group III - age 65 or age 55 and 24 yrs service.
as	1-1/2% FAS (avg of highest 60 months of last 120 months salary), for 1st 10 yrs, 2% per yr thereafter.	Normal - 60; minimum 10 yrs service. No compulsory retirement. Member at age 55 may receive full benefits w/ 30 yrs or reduced benefits w/ 25 yrs. Member at 50 may receive reduced benefits w/ 30 yrs.
h	YOS X 2% X FAS (high 5 of last 10 yrs) = current	Age 65 w/ 4 yrs service 30 yrs service - any age

Table 1 (cont'd.)

	Benefit Formula	Age & Service Requirements
Vermont	For state & local - .01667 X FAS X YOS = normal retirement allowance Police and/or fire - .025 X FAS (high 5 yrs) X YOS = normal retirement allowance	Age 65 Age 62 w/ 30 yrs service
Virginia	.0165 FAX (avg of highest 3 consecutive yrs of salary minus $1200) X YOS or .015 X avg of 3 highest consecutive yrs w/ no deduction X YOS, whichever is greater.	Minimum - 60; normal - 65; compulsory - 70.
Washington	2% X FAS (high 2 yrs) X YOS, w/ pension benefit limited to 60% FAS.	30 yrs service regardless age; 60 w/ minimum of 5 yr service. Compulsory retir ment at 70.
West Virginia	2% X FAS (highest 3 consecutive YOS out of last 10 yrs) X YOS.	Age 60 w/ 5 yrs service
Wisconsin	At 65 = 1.3% X FAS (of 3 highest yrs) X YOS; law enforcement = 1.8%; firemen = 2.3%.	Age 55 minimum; 65 normal; 55 for police & firemen
Wyoming	2% X YOS X FAS (3 highest consecutive yrs.	Age 50 w/ 4 yrs service

Loyer-Employee Contribution Rates as a Percentage of Payroll for General
rage Plans of State Systems and Selected State Consolidated Police and
men's Systems.

	Employee Contribution as % of Payroll	Adjustments Based on Social Security Coverage
bama	Employer – 10.27% 19.58% state police Employee – 5%	
ska	11.18% 4.25% employee contribution 5.00% police & fire	None
zona	Employer – 7.0% Employee – 7.0%	None
ansas	Employer – 10.0% Employee – 6.0%	None
ifornia	Employer – 13.51% regular 15.17% safety 30.17% patrol Employee – 5.00% regular 6.00% or 8.00% safety over $317 8.00% over $238	1/3 reduction on $400
orado	Employer – 10.64% Employee – 7.75%	None
necticut	Employer – 12.4% Employee – 2.0% on OASDHI base & 5.0% on balance	25% of salary to $4800 and 50% of excess at SS retirement age
aware	Employer contribution actuarially determined. Employee – 5.0% of monthly salary Above $500 maximum contribution of $900 per annum.	None
orida	Employer – 9.0% Employee – noncontributory, effective 1975.	None
orgia	Employer – 7.5% Employee – 3.0% of 1st $4200 + 5.0% of all above $4200	

urce: National Conference of State Legislatures, Profiles of State

Table 2 (cont'd.)

	Employee Contribution as % of Payroll	Adjustments Based or Social Security Coverage
Hawaii	Employer contribution actuarially determined. Employee - 6.0% + 1.8% for post retirement fund 10.4$ + 1.8% for police/fire post retirement fund	None
Idaho	Employer - 7.0% Employee - 4.5% of monthly salary (5.4% police & fire)	Basic plan + benefit formul designed to correlate w/ OASDI
Illinois	Employer - 6.4% Employee - 8.0% w/o SS 4.0% w/ SS	Different formulas used for employee w/ SS coverage
Indiana	Employer - 6.0% Employee - 3.0%	If SS does not equal $200, difference made up by pensi
Iowa	Employer - 4.75% of 1st $20,000 Employee - 3.5% of 1st $20,000	None
Kansas	Employer - 6.8% Employee - 4.0%	None
Kentucky	Employer - 7.25% 13.5 to 16.0% police & fire Employee - 4.0% 7.0% police	None
Louisiana	Employer - 9.0% Employee - 7.0%	None
Maine	Employer - 9.13% Employee - 6.5%	None
Maryland	Employer - 4.19% 14.57% police Employee - 5.0% 8.0% police	None
Massachusetts	Employees contribute 5.0% State provides balance	None

ble 2 (cont'd.)

	Employee Contribution as % of Payroll	Adjustments Based on Social Security Coverage
higan	Employer - 15.7% (incl. SS tax) Employee - no contribution	Option plan based on SS
nesota	Employer - Match regular employee contribution + 2.0% 22.0% police 14.0% correct. Employee - 4.0% 8.0% police	For correctional empl. higher benefit paid for 7 yrs or until 65, then revert to general formula
sissippi	Employer - 7.0% Employee - 5.0%	None
souri	Employer - 7.0% Employee - no contribution	None
tana	Employer - 5.55%, rising to 6.2% as of July 1, 1978 Employee - 6.0%	None
raska	Employer - 3.12% of 1st $4800 + 6.24% of excess Employee - 3.0% of 1st $4800 + 6.0% of excess	None
rada	Employer - 8.0% Employee - varies, 8-12%	None
Hampshire	Actuarially determined for employer and employee	Annuity adjusted at age 65 to account for SS benefits
Jersey	Employer - see Table 5 Employee - see Table 8	None
Mexico	Employer - 5.0% Employee - 5.0% 7.0% police & fire	None
York	Employer - range from 13.2% to 24.2% Employee - 99% do not contribute	None
rth Carolina	Employer - currently 9.12% Employee - 6.0%	Member contribution reduced from straight 5.0% total sal: to 3.0% on maximum taxable + 5.0% on earnings in excess

Table 2 (cont'd.)

	Employee Contribution as % of Payroll	Adjustments Based on Social Security Coverage
North Dakota	Employer - 4.0% gross salary - maximum of $600 per employee per year Employee - 4.0%	None
Ohio	Employer - currently 12.0% Employee - 8.0% gross pay	None
Oklahoma	Employees - 1.0% of 1st $1250 p/m salary (state members) Other members - 5.0% 1st $1250 p/m salary	None
Oregon	Employer actuarially computed; state and school dist. rate is 7.60% Employee - 4-7%	None
Pennsylvania	Employer - currently 13.0% for FY 76-77 Employee - 5.0%	Plan not integrated w/ OAS all employees who entered after 1/1/56 are covered b OASDI except state police
Rhoda Island	Employer - state $14,332,865 Employee - 5.0% state 6.0% teachers	None
South Carolina	Employer - state government 6.8% Employee - 4.0% 1st $4800; 6.0% of all above $4800	None
South Dakota	Employer - 3.5% (max. $6000) Employee - 3.5% (max. $6000)	None
Tennessee	Employer - 5.35% Employee - Group I - 5% to SS base + 5% in excess Group II - 5-1/2% to SS base + 7% in excess	Benefits integrated into S coverage
Texas	Employer - 7-1/2% Employee - 6.0%	None

ble 2 (cont'd.)

	Employee Contribution as % of Payroll	Adjustments Based on Social Security Coverage
h	Employer - same as employee Employee - 6.5% to be increased by 1.05% annually till 1978 when it will be 9.20%. Legislation permits employer to pay up to 5% employee contribution	None
mont	Employer - 7.32% Employee - 5.0%	None
ginia	Employer actuarially determined present - 2.16% Employee - 5.0%	None
hington	Employer - 7.0% service charge of 1/20 of 1% gross salary of member Employee - 6.0% + $2.50/yr service charge for admin. of system	None
st Virginia	Employer - not to exceed 10.5% of employee's compensation Employee - 4 1/2%	
sconsin	Employer - full cost not met by employees. Employee cost can never exceed 1/2 cost of the formula guarantee. Employee - 5.0% general 6.0% police 8.0% fire	Formula annuity plus. SS primary or disability benefit not to exceed 80% FAS (3 high yrs), 80% limitation does not apply to money purchase annui
oming	Employer - .0545 of 1st $18,000 Employee - .0545 of 1st $18,000	None

APPENDIX - Table 3

Post Retirement Adjustments and Vesting Provisions for General Coverage Plan of State Systems.

	Post Retirement Adjustments	Vesting
Alabama	Subject to legislation.	15 yrs or age 55 w/ 10 yrs service
Alaska	Considered annually contingent on increase in Cost of Living & Financial condition of fund.	5 yrs.
Arizona	Subject to legislative action.	5 yrs.
Arkansas	Automatic 1.5% annually & Ad Hoc increases.	10 yrs.
California	Automatic 2%.	5 yrs.
Colorado	Automatic 3%.	5 yrs.
Connecticut	Automatic 3%.	10 yrs.
Delaware	Subject to legislative action.	
Florida	Automatic based on cost of living, not to exceed 3% per annum.	10 yrs.
Georgia	Automatic cost of living increases not to exceed 3% annually.	
Hawaii	Automatic 2-1/2% per annum	5 yrs.
Idaho	Automatic based on CPI w/ maximum of 6% per annum.	5 yrs.
Illinois	Automatic 2%.	8 yrs.
Indiana	Subject to legislative action.	10 yrs.
Iowa	Subject to legislative action.	4 yrs.
Kansas	Graduated percentage increase depending on year of retirement.	10 yrs.
Kentucky	Subject to legislative action.	5 yrs.
Louisiana	Automatic based on CPI not to exceed 3%.	
Maine	Retirants get same % increases as current employees.	10 yrs.
Maryland	Cost of living increase annually.	5 yrs.
Massachusetts	Automatic adjustments when CPI shows 3% or more change.	10 yrs.
Michigan	Subject to legislative action.	10 yrs.

Source: National Conference of State Legislatures, Profiles of State Retirement Systems (Denver, 1976.

able 3 (cont'd.)

	Post Retirement Adjustments	Vesting
innesota	Annual adjustments when CPI shows 3% or more change.	
ississippi	Additional check annually based on 1.5% X no. of yrs retired X annual benefit.	15 yrs.
issouri	Subject to legislative action.	10 yrs.
ontana	Subject to legislative action.	5 yrs.
ebraska		9.2 yrs.
evada	Automatic increase annually.	10 yrs.
ew Hampshire	Subject to legislative action.	
ew Jersey	1/2 of rise in cost of living index as reflected in index since 1954. 3 year waiting period. Specific increases limited to those receiving minimum pensions.	15 yrs.
ew Mexico	Automatic 2%.	5 yrs.
ew York	Supplemental allowances are payable to members who retired prior to 1/1/70.	10 yrs.
orth Carolina	Automatic based on CPI w/ maximum of 4% per annum.	5 yrs.
orth Dakota	None.	15 yrs = 100% 12-15 yrs. = 80% 9-12 yrs. = 60% 6-9 yrs. = 40% 3-6 yrs. = 20% 0-3 yrs. = 0%
hio	2% CPI related increase after 24 months.	5 yrs.
klahoma	Subject to legislative action.	10 yrs.
regon	2% maximum cost of living adjustment.	5 yrs.
ennsylvania	Subject to legislative action.	10 yrs.
hode Island	3% cost of living starting in 3rd yr after retirement.	10 yrs.
outh Carolina	4% cost of living if CPI equals or exceeds 3% during year.	15 yrs.
outh Dakota	None.	

Table 3 (cont'd.)

	Post Retirement Adjustments	Vesting
Tennessee	Annual cost of living not to exceed 3%.	Group I - 4 yrs. II - 10 yrs. III - 8 yrs.
Texas	Subject to legislative action w/ approval of governing board.	10 yrs.
Utah	Automatic based on CPI w/ maximum of 4% per annum.	4 yrs.
Vermont	Automatic based on CPI w/ maximum of 5% per annum.	10 yrs.
Virginia	Cost of living every 2 years upon review of CPI.	5 yrs.
Washington	None.	5 yrs.
West Virginia	None.	
Wisconsin	Prohibited by state constitution. However, annuities can be increased by use of surplus in annuity reserve account.	
Wyoming		4 yrs.

APPENDIX - Table 4

Membership of the Boards of Trustees and Pensions Commissions of the New Jersey State Retirement Systems.

1. Board of Trustees of the Public Employees' Retirement System. 9 member board consisting of:
   (a) 2 trustees appointed by Governor to serve at his pleasure
   (b) State Treasurer
   (c) 3 trustees for terms of 3 years to be elected by member employees of the State
   (d) 1 trustee for a term of 3 years to be elected by member employees of counties
   (e) 2 trustees for terms of 3 years to be elected by member employees of municipalities.

2. State House Commission has responsibility for Judicial Retirement System.
   Composed of: Governor, State Treasurer, Budget Director, 2 members of Senate, and 2 members of General Assembly.

3. Board of Trustees of Teachers' Pension and Annuity Fund. 9 member board consisting of:
   (a) State Treasurer
   (b) 2 trustees appointed by Governor to serve at his pleasure
   (c) 3 trustees for terms of 3 years elected by active member employees
   (d) 1 trustee, neither an active nor retired teacher nor an officer of the State, elected by other trustees, except State Treasurer.

4. Prison Officers' Pension Commission. 6 member commission consisting of:
   (a) State Treasurer
   (b) 1 member appointed by Governor
   (c) 3 members for terms of 3 years elected by active employee members
   (d) 1 member, a citizen of State who holds no State office, elected to 3 year term by other members of commission.

5. Board of Trustees of State Police Retirement System. 5 members consisting of:
   (a) 2 active employee members appointed by Superintendent of State Police to serve at his pleasure
   (b) 2 members appointed by Governor to serve at his pleasure
   (c) State Treasurer

6. Consolidated Police and Firemen's Pension Fund Commission. 9 members consisting of:
   (a) 2 members for terms of 4 years elected by policemen
   (b) 2 members for terms of 4 years elected by firemen
   (c) 4 members appointed by Governor
   (d) State Treasurer.

7. Board of Trustees of the Police and Firemen's Retirement System. 9 members consisting of:
   (a) 4 members appointed by Governor to serve at his pleasure
   (b) State Treasurer
   (c) 2 policemen and 2 firemen for terms of 4 years elected by active membership.