Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON PUBLIC EMPLOYEE BENEFITS REFORM

"The Committee will meet to organize and receive a presentation by Frederick J. Beaver, Director of the New Jersey Division of Pensions and Benefits"

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: August 9, 2006
10:00 a.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Nicholas P. Scutari, Co-Chair
Assemblywoman Nellie Pou, Co-Chair
Senator Ronald L. Rice
Senator William L. Gormley
Assemblyman Thomas P. Giblin
Assemblyman Kevin J. O'Toole

ALSO PRESENT:

Pamela H. Espenshade
James F. Vari
Office of Legislative Services
Committee Aides

Christian Martin
Senate Majority
Aaron Binder
Karina Fuentes
Assembly Majority
Committee Aides

Laurine Purola
Olga Betz
Senate Republican
John Kingston
Assembly Republican
Committee Aides

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Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

SENATOR NICHOLAS P. SCUTARI (Co-Chair): Okay. Thank you, everyone, for attending.

I apologize for the tardiness. But everyone who came down on the Turnpike obviously understands the respective members' difficulties in getting here today.

I would like to thank and welcome everyone to the opening meeting of the Joint Legislative Committee on Public Employee Benefits Reform. I look forward to working with my Co-Chair, Assemblywoman Pou, seated to my left, and my fellow members from both Houses of this Committee.

And I want to thank Senate President Codey and Speaker Roberts for convening this special session of the Legislature to address the necessity of property tax reform.

Let me be blunt, to start our proceedings today: The pension and benefits system in New Jersey is broken. Our costs are skyrocketing out of control, and our liabilities are skyrocketing.

Just last week, local governments learned and discovered that their portion of the pension bill was going up by $267 million, a nearly 100 percent increase over the year 2005. This will doubtlessly translate into even higher property taxes for working New Jerseyans and their families, fueling the vicious cycle that is making our great state less and less affordable to live in.

In order to fix this problem, we must achieve an equitable balance between the interests of the taxpayers and those of our good public servants. No longer can we afford so-called *pension holidays* and allow the system to fall further into disrepair, jeopardizing the retirements of thousands of hardworking public sector members. Nor can we, I believe, ask New Jersey taxpayers to bear the burden of financing, in perpetuity, public employee benefits that bear no relationship or resemblance whatsoever to what is available in the private sector.

We must be realistic about the problems that we are facing here today. Waiving a magic wand is not going to fix what ails the State of New Jersey. There are deep-seated structural issues that this Committee is going to have to address if we're going to effect all the changes that are necessary to ensure that the retirement system is stable, fully funded, and affordable.

Are we going to continue to offer new employees defined benefit pensions in perpetuity? And if so, how are we planning on paying for that? Are there ways that we can restructure our health benefits offerings to make them more efficient and more affordable? What loopholes need to be closed to eliminate costly waste, fraud, and abuse within our system? Should the State be bound by law to make annual payments into the Pension Fund?

We're going to use the recommendations of the Benefits Review Task Force as a starting point for our work. But it will not be the final destination. The Task Force's report is a significant piece in a larger puzzle, one that we will put together over the next few weeks by taking testimony from parties on all sides of the issue, and by asking tough, thoughtful, and critical questions. The conclusions that we arrive at must be the product of a collaborative, consultive process guided by the facts that we receive at the Committee.

I want to stress that I do not want this Committee to be viewed as an instrument for placing the blame for our property tax crisis on the backs of rank-and-file public employees. I'm not going to ask them to take responsibility for decisions that the Legislature made that precipitated the current situation. Nor can this Committee effectively serve the people of New Jersey if it is dedicated only to providing a little window dressing, while protecting entrenched interests against the necessity of deeper, lasting changes.

And so I call upon my Senate and Assembly colleagues from both sides of the aisle to spend this time exercising the best of their talent, and in the pursuit -- and not in the pursuit of fleeting political goals, but to achieve the greatest possible good for the State of New Jersey. Let's be open to the possibility that the solution to our problems may not necessarily fit neatly with our preconceived notions.

I look forward to a process that demands a lot of hard work and a lot of willingness to listen from all members.

We will begin today's hearing with a presentation by Fred Beaver, Director of the Division of Pensions and Benefits, who will provide an overview of the State's pensions and health benefits programs, as well as some insight into the overall condition and costs of the benefits system currently in place.

At future meetings, we will examine each of the components of the various retirement and health benefits programs, as well as other aspects of public employee compensation, to determine which aspects of the benefit and compensation plans should be revised, if any.

As we move forward, there will also be an opportunity for the appropriate employee representatives, interest groups, and citizens to provide their perspectives.

I look forward to working with all members of the Committee on both sides of the aisle, and members of all the public interest groups that have a vested interest in what this Committee recommends to the full Houses.

With that, I'd like to introduce my Co-Chair, Assemblywoman Pou, for her comments.

ASSEMBLYWOMAN NELLIE POU (Co-Chair): Thank you so very much, Senator Scutari. And thank you for your observations about this Committee's agenda for action.

I, too, want to thank Speaker Roberts and Senate President Codey for calling this special session and for constructing this Joint Committee framework.

Personally, I'd like to thank Speaker Roberts for granting me the opportunity to serve as Co-Chair of such an important Committee.

Co-Chairman Scutari, Senators Ron Rice and Bill Gormley, and my Assembly colleagues Tom Giblin and Kevin O'Toole: I look forward to working with each and every one of you on strengthening the integrity of our public employees benefits system.

Ladies and gentlemen, eight years have passed since the State Commission of Investigation offered a set of recommendations for preventing abusive practices in the State's pension system. Eight months have passed since the Benefits Review Task Force, appointed by Governor Codey, proposed sweeping changes to the benefits system. And it has been five months since the SCI issued a highly publicized report crucial (*sic*) of contracts and benefits awarded to public school administrators.

In addition to these investigations and Task Force reports, a variety of publications, notably the *Asbury Park Press*, the *Record* of Hackensack, and the *Star-Ledger* have reported in recent months on pension abuses, sweetheart contracts, and public employees compensation practices.

It is safe to say that there is a heightened public awareness about government worker compensation and benefits, and how these costs compound our state's high property tax burden and our budget problems.

There's a sense of anger out there in some quarters of the public. Some of this anger may be justified, because it is not easy to get around the fact that a large measure of our public employees benefit practices are out of step with trends in the private sector. But some of the anger has been misdirected at career public employees. They are being unjustly -- scapegoats for abusive practices perpetrated by political appointees and professional service providers.

My dear colleagues, we do not have an easy job ahead of us. From time to time, I suspect this Committee may find itself working on -- as an arbiter when crafting reforms that protect taxpayers' interest, while providing a sound, fair, and deserved benefits safety net for career public employees.

This may be an uncomfortable assignment for some of us in the months ahead. But there is no escaping the fact that our job must get done. Like it or not, changes are needed. Our current pensions and benefits system costs $8.42 billion to maintain a year. To put it in perspective, that's more than a quarter of this year's $31 billion budget. And that number will only go up as more people in the system reach retirement.

To make matters worse, our pensions system has a deficit of more than 12 -- pardon me -- $18 billion. Meanwhile, local governments are being overwhelmed with pension payments that are increasingly -- increasing at roughly $200 million a year. The *Star-Ledger* reported, August 1, that these payments will be increasing by $267 million a year, to $650 million, in Fiscal Year 2007.

Statistical fact-gathering will certainly be an important part of this Committee's work, but it shall not be our sole focus. We will be setting ourselves up to fail if we allow this Committee just to be another academic exercise. Our long-term objective is to produce results, a set of legislative recommendations due by November 15. Our endgame plan -- our endgame is not another report, but reform.

As we step forward to achieve this aim, we must remember to be fair and open-minded. We have thousands of public employees who have paid, or nearly paid, their dues into the pension system. While we search for ways to repair and reform the system, we must never forget that thousands of people were promised the pension and benefits 10, 25, 30, and even 40 years ago. I don't think any one of us, in good conscience, can say that we can take that promise back. And I don't think any of us want to.

Having said that, we must be willing to examine all options. We must look at every proposal and every idea if we are to contemplate successful reform.

Nothing that is fair should be left off the table. And nothing that's inventive or innovative should be scoffed at or ignored. The time for easy decisions and safe answers is long past. The statistics tell us, the investigations and reports tell us, and most importantly the public is telling us that now is the time for results, now is really the time for reform.

Senator, I really appreciate the opportunity to work with you and all the members here, both from the Assembly and the Senate. I think our job is really ahead of us at this point.

Thank you so very much, ladies and gentlemen.

SENATOR SCUTARI: Thank you, Chairwoman Pou.

Senator Rice, do you have any comments?

SENATOR RICE: No more than five, because we have a lot of work to do. I'm going to try to be as objective as I can.

I don't appreciate the fact that every time we talk about the benefits to government employees, we -- meaning the media -- belittle those folks who come to work every day, whether they are janitors or they're clericals. When you talk about abuse, it's usually leadership at some level or another, or political friends, which does not represent the majority of our workers.

By the same token, I've been here long enough to understand that when we look at these cost factors, we need to look at the industry that provides the health care costs. For some reason, we never take a look at those industries. I can recall where we used to attack the insurance industries, and we looked for excess profits and all the double booking.

I think if we're going to do this, that out of this should come recommendations, with whatever we do, that we'll also have someone start taking a look at the industry that is supposed to be providing these benefits at a reasonable cost.

SENATOR SCUTARI: Thank you, Senator.

Assemblyman Giblin, do you have a statement before we--

ASSEMBLYMAN GIBLIN: Good morning.

First of all, I'm honored to be part of this discussion on public employee benefits reform, and the corresponding special session to fix the State's property tax problem.

Both Senate President Codey and Speaker Roberts are to be commended for setting this unprecedented reform effort in motion.

As a labor union official, I fully understand and appreciate how important pension security and sound health benefits are to working families in the state. And as an individual who has served in different capacities in elected positions, I fully understand the cost factors involved in providing these same benefits to public employees at the State, county, and local levels.

I want to also thank Speaker Roberts for providing me the opportunity to lend these two different perspectives to this Committee's discussions.

Governor Corzine, in his July 28 message, clearly articulated that property tax reform will be difficult to achieve unless we get a handle on the benefit arrangements of public employees at each and every level of government. As he noted, the new State budget includes a long-overdue $1.3 billion cash payment to the State's pension plans. But that payment falls short of solving our long-term benefit problems.

Unfortunately, our pension liability, as we speak, is in excess of $18 billion. And then coupled with that -- I think all of us recognize the issue of health benefits that over, the next four years -- it is expected that our cost will increase a total of 7 percent, equaling out to about $3.6 billion.

According to the Governor's estimates, the State faces a nonfunded post-retirement health benefit cost of $20 billion. At best, our system is unsustainable under current conditions. And, also, at worst, it is trending towards a possible collapse.

For the sake of both the public employees and the taxpayers of New Jersey, corrective actions are essential. As I see it, this Committee's charge is to identify potential remedies and present them in the form of legislation to be enacted at the end of 2006 by both the Senate and the Assembly.

As a starting point with this undertaking, we are going to review the recommendations that were contained in last December's Benefits Review Task Force report. Speaking both as a union official and a public official, there is one observation I want to make from the start. This is not going to be an easy assignment, as far as the work of this Committee. We have made promises over the years to State employees, through our individual collective bargaining agreements. Meanwhile, we have hundreds of thousands of folks in New Jersey who have invested at least a decade of their lives in public employment and are dependent on delivery of these promised benefits. And like the Governor, I don't think that we have the legal or moral authority to break promises or contracts in search for these solutions. These areas of reform may be best left at the bargaining table, where they can continue to be properly vetted and addressed.

Likewise, there are many questions about some of the remedies that have been advanced publicly by the Governor and elected officials. In terms of change to the benefits, retroactive is one of the thorny issues that we will need to examine. None of this, of course, prevents the Committee from advancing large measures of reform. Quite the contrary. I think that one of our most important tasks, for example, will be to ensure that benefits work for the career employees it was designed to serve.

I know there are many skeptics and cynics in the state. There are probably individuals in our midst who do not want to see (indiscernible) succeed. Some of these naysayers, unfortunately, are politically motivated; and just others are to the contrary.

Editorial writers have cast doubts about our collective resolve to achieve Pension Fund reforms. One went so far as to urge his readers not to bet on property tax reform coming from this Committee. And even another double-dog-dared us to prove them wrong. I say we accept the challenge, because if we ignore the public employees benefits issue, the long-term consequences won't be simply a case of higher property taxes, it will be higher property taxes, lawsuits, bankruptcy, a defunct pension benefit system, and ruined lives. And such an outcome will be a benefit to no one.

Thank you.

SENATOR SCUTARI: Thank you, Assemblyman Giblin.

Senator Gormley.

SENATOR GORMLEY: Thank you.

First of all, I'd like to thank the Senate President and Minority Leader Lance for making this appointment possible, and also compliment Governor Codey for his work to set up, with Mr. Murphy, a wonderful review commission on benefits.

I also want to thank the Governor. Because this would be just a meaningless Summer to nowhere if he hadn't set the tenor, during the budget, that regressive politics that have limited the State in the past are no longer going to take place. Without his leadership, the hope for meaningful reform wouldn't be able to take place.

Two items -- not -- very important. Number one, the sanctity of contracts, absolutely. But this process will be meaningless unless we simultaneously are engaged in active contract negotiations. Because we told everybody property tax relief -- a dollar in and a dollar out. I think we heard it a few days, over and over again, when the Governor was speaking. So if we're going to have a limited amount of dollars and know what's coming in, we should know what the contract-- We can't wait for the Spring. Let's get the negotiations done now. Let's know by December 1 what the benefit package is going to be. Because there is only so much money to go around. And what we can't do is leave a piece of the puzzle outstanding.

So I would call on the Governor and the negotiating units to sit down now. We must know the number, because how can you do reform if a part is not included in it? A dollar in, and a dollar out.

And in terms of one reform-- There was a bill that passed in 2001. I voted for it. We were told there would be money set aside for it -- changing one of the factors from 55 -- excuse me -- from 60 to 55, at a 9 percent increase in the pension. There was supposed to be money set aside for it. There's no money there now. If, minimally -- we have to make sure that we do that reform.

But, first of all, thanks to the Governor, again.

We really have to know what the benefits package is now, because that would be a way to cause chaos in the Spring. And we have-- If we're going to talk about property tax relief, let's negotiate the contract now. Let's all stay here every day that we have to stay here. And let's get it done.

And, finally, we have to change that age back to 60, because we all know that the books weren't really very accurate -- and that's a compliment, at best -- in terms of, we were told that we could afford it.

And thank you, Co-Chairs. I look forward to working with you. This is exciting. And I said, because of the Governor, I think this is really going to be meaningful or I wouldn't be sitting here.

Thank you very much.

SENATOR SCUTARI: Thank you, Senator Gormley.

Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Thank you, Chair.

I don't have a prepared text. I just have a couple of notes and a couple of things I want to say, to start this hopefully historic and momentous Committee hearing.

As we come here today, we are all shaped by our experiences, our education, our families, our communities. And we form opinions over the course of time.

One of the things that stands out in my mind, that occurred in my lifetime, which has been -- has formed a pretty strong opinion: Twenty years ago, almost to the day, my father, who was a pressman -- who, with a high school education, worked for 26 years in the same company. And he went to the bank to cash a check, and they bounced his check.

The next day, he found out that the company, after 26 years, was going bankrupt. And he asked for his pension. And they had, in fact, said there was not a dollar left in his pension. After 26 years, he was told, as a father of seven, that he has no job, and he has no pension, and he has no health care. And as you can imagine, that was difficult for one of seven kids, to try to reconcile how that occurred. So that's one of the experiences in my life that has shaped my thought process as to how we treat workers, and how we treat pensions, and how we treat earned benefits.

I was fortunate, in 2004, to sit on the Constitutional Convention Property Tax Task Force. I sat on there with Speaker Roberts, appointed by then-Governor McGreevey. And I had great hope and great expectation that that experiment was going to take root and really going to lead to meaningful property tax relief and reform.

Boy was I sadly disappointed two years later that not a single stitch of our work has been implemented, either in statute, or practice, or regulation, despite the fact that we had worked throughout the year, had public hearings throughout the state, heard from hundreds of experts. And it failed for one simple reason -- is because the Legislature -- and I think the Governor, at that time -- lacked the political courage to say you had to have spending and revenue on the table, as we have now discovered is the only way to get meaningful property tax relief and reform -- is to have both halves of the equation, both sides of the ledger on the table.

I couldn't be happier than when I heard Governor Corzine talk about -- that we are -- he was serious about having property tax relief and reform on the table. And he insisted -- I think I heard him clearly -- that you have to have spending. During the course of our last Task Force, I heard Governor Florio, and Governor Byrne, and dozens of others say you have to have both. So if this is going to move anyplace, if this is going to be meaningful -- and I think it is -- it has to be bipartisan, both Houses.

And to the both Chairs, I can't tell you how happy I am that I'm going to be here, working with you. But I heard the Chair's comments about, let's not assess blame. I think we have to. Both parties have failed this system, Republicans and Democrats. We're here today because the Republicans and Democrats have not done their job. Senate, Assembly -- assign where you want -- the fact of the matter is, every decision that has been made has been predicated, up to this point, on a political calculation for the next election.

So if we are serious -- if we are really serious about reform, we have to cast a blind eye, or totally neglect the political consequence. And we have to embrace thoughtful, and sincere, and meaningful public policy. If we're looking about 2007 or 2009, this will not work. And I don't think I'm hearing that. I'm hearing from the Committee members -- and I'm glad I spoke last -- that everybody is serious about this type of endeavor.

And I tell you-- Like I said, it's the Greek mythological creature Sisyphus. We push this rock up the top of the hill, and at the top, when you know when it's going to get there, somehow it ends up rolling back down again. I think the people -- the property taxpayers of New Jersey-- You talk to them. They don't think this is real. They don't think this is serious. But I think it is. I have great hope and great expectation.

And some of the experiences that shaped me, Chair-- What I heard last year -- 57,000 people packed up, got in U-Hauls, and left the state because they couldn't afford the cost of living here in New Jersey. That impacts me. I think about my mom and dad. When I hear 56,600 new public employees were on the rolls in 2000 to 2005, and at the same time 7,800 private sector people lost their jobs -- at the same time we added

56,000 public sector, we lost 7,800 private sector. That doesn't make sense. That doesn't make sense. And there's a cost associated with each of those individuals. I'm sure they all work hard. They have health benefits. They have a service. But we have -- at some point have to ask, what's the ability to pay?

And I ask-- And I'm going to just ask that we consider, at some point in time, Chair, the following issues. And these-- Some of them are easy. The pension padding, the boosting, the tacking; the restricting of the end-of-career salary hikes; requiring employees to base their pensions on only one job; expanding the number of years to calculate their pensions; banning convicted officials and employees from collecting a pension-- We have to talk about eliminating pensions for part-timers.

And I ask you this: If we're going to ask State employees, municipal, county employees, teachers to consider sacrificing, then we, too, as legislators, have to sacrifice. And we have to lead before we ask others to follow.

So we have to ask about whether legislators are entitled, whether any part-timers, or whether any of the hundreds of appointees on State boards should be entitled to pension credits or benefits. We have to eliminate, or at least talk about eliminating, pensions for professional services, contractors, and vendors; expanding Defined Contribution Plans, raising the threshold. Now, for $1,500, you buy into a Cadillac of pensions -- $1,500. You can work 22 years, $1,500 a year, and your last three years you get $100,000 -- your pension is based on $100,000. Does that make sense? I don't think so. I think we ought to look at raising the retirement age. I heard Senator Gormley pretty clearly -- how we were sold a bag of lies, or goods, or however you want to calculate this -- raising -- or lowering from 60 to 55. Let's look at 55 to 60. Let's look at 60 to 65, maybe 67. Let's look at it, either current or new employees. We have to at least look at it. Cost-of-living adjustments -- we have to look at. A moratorium on early retirement plans -- we have to look at. Pension loans, service credit purchases, pension asset investment--

Let's go to the health benefits side. We have to look at the costs. Municipalities are going bankrupt because they're paying -- the health costs are going through the ceiling -- public employees -- 10, 11, 12, 15 percent. We have to look at it. We have to look at having a State pharmacy benefits manager. We have to look at having a significant co-pay for all State employees, legislators, commissioners, on down to everyone. We have to look at dealing with the massive unfunded liability and post-retirement medical accounts. We have to look at the scope of collective bargaining, and sick leave, and sick time, and vacation time, and rollovers. School Commission of Investigation rolled out a report a few months ago. It was a damning report about -- and not to pick on them -- school administrators. People were saying their salary contract was $200,000. In reality, it was $350,000, $400,000. And their pension was based on fillers and back fillers. And they were cashing in sick time and vacation time, and they were checking their own time for the last 30 years. They were rolling that into one huge pension payout. So their salaries are based on $300,000 and $400,000. That, to me, is not right. The public should know what the pensions are. The contract should be the contract. These contracts should be scrutinized. And we should have a repository at the State side to make sure that no one is getting away with gaming the system.

So, Chairs, those are the areas that I could at least touch on, talk about, bring experts in -- private, public sector. I want to hear about everybody. And I'm glad that we're saying everything is on the table. I, with great expectation and anticipation -- I will work with you, with the Governor, with the Speaker, Senate President to make sure this time it's actually going to work.

Thank you very much. (applause)

SENATOR SCUTARI: Members, Chairwoman Pou, thank you so much for your insightful comments.

At this time, we're going to welcome Fred Beaver and his staff -- Director of the Division of Pension and Benefits -- for a presentation.

F R E D E R I C K J. B E A V E R: Good morning, Mr. Chairman, Madam Chairwoman, members of the Committee.

I appreciate the opportunity to be here today.

I'd like to introduce two members of my staff. John Megariotis is the Deputy Director of Finance, and Florence Sheppard is the Deputy Director for Benefit Operations. Consider them the two experts in pensions and benefits in the State of New Jersey. They've got over four years of experience with the Division. So they will be the people that I look to, to help deliver information to this Committee as needed.

Before I start on the presentation, I'd like to make a comment about how we developed the information I'm going to show the Committee today. We thought it important-- There's been a lot of information in the press -- in the media, the radio. Everybody's talking about public employee health benefits, public employee pensions. And there's a lot of misinformation. So I think it's important that we deliver some baseline data that allows you to recognize what is and what is not within the scope of public employee benefits, at least in the operations of the Division of Pensions and Benefits.

What I'd like to do, also, is ask-- I'll leave this to the Committee -- questions following, questions during the presentation? That will be your call. We're very flexible here. So whatever is your pleasure, we'll be happy to work with you.

Just as an overview, the State of New Jersey runs the second largest employee benefits system in the nation, probably second only to California. And the ultimate mission is -- has been developed within the Division over the years and within the State -- has been to help to attract and retain a skilled and competent workforce. I think it does a good job of that.

The plans administered by our Division-- We've got nine pension systems -- and I'll go through those in more detail, three supplemental retirement savings plans, the State Health Benefits Program, and a number of voluntary benefit plans. And you'll see how some of these plans are only available to State employees, while others are available to both State and local employers, including school boards and schools.

The number of covered lives: As you talk about the State employees, you have to understand that since we do include over 1,500 local employers in the pension system, and have just under 1,000 employers in the Health Benefits system, it's a much larger population. So we've got 740,000-plus active and retired participants in the defined benefit plans, the pension plans; over 16,000 in the Defined Contribution Plan, which is only available to State employees; 802,000 lives in the State Health

Benefits plan, and that includes dependents there; and over 122,000 participants in the various voluntary benefit plans.

In terms of participating employers, we have 1,700 State and local employers. As you can see, that includes the entire gamut: police, fire departments, municipalities, colleges, school boards, local authorities, and commissions. So it runs the gamut throughout the state.

In the defined benefit plans, you've got any number of these. As you can see, just as a rough number, we've got over a half-a-million active participants in the defined benefit plans: the Public Employees' Retirement System, the Teachers' Pension and Annuity Fund, PFRS -- police and fire, State Police, and judicial. And then we've got three closed system, which you can really ignore for now -- the Prison Officers' Pension Fund, consolidated pension fund, and the Central Pension Fund. They're closed, but there are still participants out there. So we just want to make you aware of those.

The pension system enrollment is a condition of employment. So anybody who is hired as an employee, earning more than $1,500 a year, is required to enroll in the pension system to be an employee -- and basically earn service credit, which translates into vesting, benefits eligibility, and calculation of your ultimate benefit. The salary history is all captured, and it's recorded to develop your final pension estimates or final pension benefits. Group life insurance coverage is part of the pension system. And we'll talk more about that. You've got employee contributions that vary. When you look at PERS and Teachers' you're at 5 percent, police and fire is at 8.5 percent, State Police is at 7.5 percent.

There are some variations. Within PERS, for example, you've got subsets. You've got the judicial system. You've got the prosecutors' part that has a 7.5 percent contribution. You've got some workers' comp judges parts. So there are some variations within the system. But the basic formula is right there.

Retirement benefits: The PERS and Teachers' are both 401(a) defined benefit plans under the Internal Revenue code. PERS has an active membership of 322,000, with retired at 121. Teachers' has 154,000 active, with 65,401 retires. What's interesting is, if you look at these systems over the last four or five years, the numbers on both sides -- both active and retired -- continue to ramp up. So you'd expect to see some leveling off or some decline in one part, as others -- you know, some retire. But both sides are going up at the rate of 8 to 10 percent a year.

Retirement eligibility for those funds: I want to talk specifically PERS and Teachers' at this point. A service retirement at age 60: What that means is that you can retire at age 60, regardless of what your service is. So if you have four years of service at age 60, you can retire. You'll get four fifty-fifths of your salary, but you are eligible to collect a retirement benefit.

Early retirement is 25 years of service-- If you've got 25 years of service at age 55, you can retire with a fully unreduced benefit. And there are some options out there for survivor benefits. But that's the basic issue. Deferred: at 10 years of service, you can collect your benefit at age 60. So provided you've got 10 years of service, no matter when you got it -- when you come back, you collect a benefit like any other retiree. And then there's veterans' benefits and disability benefits.

The basic benefit formula is years and months of service over 55. So I guess the easiest way to describe it would be, if you had 27.5 years, over 55, you're benefit would be equal to 50 percent of your final average salary. And in those two systems, the final average is generally your highest three years of service -- highest three years of salary. The only exception is a veteran, where it's the final year -- the final 12 months.

As I said, special benefit formulas-- Veterans can actually get 54.5 percent or more times the highest year salary. In disability retirements, you've got a bunch of variations here. And what you need to keep in mind is that you've got variations across systems. There are different -- ordinary and accidental disability benefits, variations between PERS and Teachers', versus police and fire, for example. The ordinary benefit here, at 43.6 percent of final average salary in the case of an ordinary disability. You have to have at least 10 years service. In accidental -- would give you 72.7 percent of salary at time of the accident. And that is typically an on-the-job accident. And there are a lot of conditions to get those. You have to qualify under a couple of different scenarios to get that accidental benefit, and it's a fairly high threshold.

The active death benefits: An employee dies during the course of service. They would be eligible for the return of contribution, with interest, provided they have more than three years of service, and the group life insurance benefits. And you'll see the variations there, as well. So, again, just keep that in mind.

On the PERS side, in the noncontributory benefit, life insurance is 1.5 times your last year of salary, contributory is 1.5 times last year of salary, for a total of three times pay. The employees pay premium on the contributory at $0.50 -- half of 1 percent of base salary is the annual premium.

When you look at Teachers', the noncontributory is at 1.5, just like PERS. Contributory goes to 2 times, for a total value of 3.5. And the employees pay a lower premium, .4 percent of 1 percent -- .4 of 1 percent.

The retired group life: Again, you've got variations between PERS and Teachers'. If you retire with 10-plus years service credit, you've got paid up death benefit in PERS of three-sixteenths of last year salary. With Teachers', it's seven-sixteenths of last year of salary. So, again, there's variations within the systems.

On the police and fire, and State Police plans: This is a very different structure, given the nature of the job. Police and fire has an active membership of 45,000. It has a retired membership of 29,000. The State Police has an active membership of 2,950, with a retired membership of 2,299.

For retirement eligibility-- These are very different, as you'll see. You have service. It's three types, with usually age 55. Mandatory retirement for police and fire at age 65, and for State Police at age 55. They have a special retirement benefit at 25 years of service credit at any age. SPRS is -- oh, I'm sorry -- deferred is 10 years of service, same as the other systems, basically. But you can collect that at age 55, unlike the other systems which require you to be at age 60. And then there is, again, disability benefits, which we'll talk to further.

The retirement formulas for police are very different, as well. Service retirement -- this is the retirement at age 60 -- 50 percent of final pay. Special retirement is at 65 percent of final pay. Special retirement is basically retirement with 25 years of service. Deferred retirement is 2 percent times final compensation, times years of service. And disability ranges from 40 to 67 percent.

The active death benefits for police and fire, and State Police: If not in the line of duty, survivor pension is equal to 50 percent of final comp, plus a group life insurance benefit equal to 3.5 times final pay. In accidental death cases, the survivor's pension is at 70 percent of final comp, and the group life insurance benefit is equal to 3.5 times final pay.

Retired survivor benefits: They have a very, again, different formula. They don't have options, as you have with PERS and Teachers'. They cannot elect options. It's a 50 percent pension to surviving spouse, plus 50 percent of final comp life insurance benefit to whomever is designated as the beneficiary.

In all the systems, there's a cost-of-living adjustment. It doesn't kick in until two years after retirement. So if somebody retired today, they would not see a cost of living adjustment for at least two years. And once it is effective for that individual, it then is an annual adjustment. And the adjustment is equal to .60 percent of the change in CPI.

Another thing to be concerned about is purchase of service credit. And this is something that happens on a regular basis. And it allows people to reach a threshold for retirement eligibility, it allows them to qualify for retiree health benefits, and also to increase their overall pension benefit.

There is any number of things that can be purchased. And the cost of the purchase is dependent upon where the prior service was. If you're purchasing some out-of-state service, for example, as a teacher, that prior service is a full-cost purchase. So you have to pay a much higher price than you would if you were buying some prior service as an employee of the State of New Jersey, be it local or State level. Because there is a great deal -- lot of variations here. The U.S. military service, for example, is also a full-cost purchase. So there are a lot of variables, lot of statutory requirements around how we calculate these benefits -- or purchases.

Pension loans: I know that was mentioned today. Pension loans are available to any employee, any participant in the system, who has three years of service. You're eligible to borrow up to one-half of your posted contributions. You're allowed two loans per calendar year. And you repay through payroll deductions. The interest rate is 4 percent. Loans can be paid in full at any time. One of the problems with the loans, that we're concerned about, is the fact that the pension system assumes an 8.25 percent rate of return on its moneys. We're handing money out with a 4 percent interest return. So we're losing 4.25 percent right off the bat. With the system of 8.25 percent, it equates to about $11 million for each 1 percent of interest. So this is actually a money-loser for the pension system.

If you terminate membership in the system, and you're not eligible for retirement allowance because you're not age 60, or you don't have 25 years of service, or you're not vested, your account will expire at the end of two years. You can let the money sit there for two years. And after that, you must withdraw from the system. A lot of people will let it sit out there in the hopes of finding new employment with the State or with a local government employer.

Post-retirement work: Basically, you cannot return to work under the State of New Jersey retirement system. There are dollar thresholds on this. If you are a PERS member, for example, and you retire, can you get a local job? Yes, you can. You can only earn up to $15,000 a year. If you're a teacher, and you retire, and you're collecting Teachers' benefit-- If you return to a teacher's position, you're capped at $500 per year. So, again, you've got all these variations. We're all over the lot on this stuff.

Now, accepting work in any of these industries, or Federal government, other state governments, or if you're working for a system -- or a position that's covered by another retirement system, you can continue to collect your pension and still earn a full salary. An example of that might be a police officer who is now going to work in a local municipality in a PERS position. They can't enter the PERS system, because they're already collecting a pension. They're allowed to collect their police and fire pension, they're allowed to draw their salary from the regular PERS position. Again, there are a lot of rules around this. It gets very complicated. We get a lot of confusion with the membership because of it.

The Defined Contribution Plan: Again, this is something you never hear about on the news. But we wanted to make you aware of it. This basically covers the State college and university faculty members. There are about 17,000 participants. And it's an IRC 403(b) plan. The eligibility is all full-time faculty, officers, and some administrators at the colleges, State colleges, universities, and the Higher Education Student Assistance Authority.

The contribution rate-- Again, this is not a defined benefit system. This is more like a -- we would characterize -- a 401(k)-type system. There's a member required contribution rate of 5 percent, on a tax-deferred basis. And the employer contributes 8 percent. The employer in this case, of course, is the State, because the State's reimbursing the colleges for all these expenses. The moneys are vested after one year. And additional tax deferred contributions on the part of the member are permitted. So a person can elected to go above the 5 percent if they so wish. There are a number of carriers that have been approved for investment here.

Again, they've got group life insurance. This looks, again, different from what we see in the other systems. The benefit is at 3.5 times the last 12 months of salary. And then the retired benefit is equal to 50 percent of final salary. If you recall, in PERS it's three-sixteenths. In Teachers', it's seven-sixteenths. This one finally gets to that 50 percent mark. They also are eligible for a long-term disability benefit equal to 60 percent of pay. That's where you're different, because the other systems -- if you're going to go on disability, it's within the pension system. This is a separate contract through Prudential.

The retirement benefits payable, under this program-- The earliest possible time is at age 59-and-a-half. Withdrawals from the ABP prior to 59-and-a-half are subject to tax penalties. And this is the same as your private participant in a 401(k) plan. You have the same problems. If you withdraw the money before a certain age, you have to pay a 10 percent penalty on the withdrawals. They're available taking is a lump-sum distribution, a life annuity, or a fixed annuity.

Have I put anybody to sleep yet?

The voluntary benefits plans-- Even more retirement plans. I haven't even gotten to the other voluntary plans. These little voluntary plans that-- They're little-known voluntary plans.

The supplemental retirement savings accounts have a total of 38,000 members: You have New Jersey State Employees Deferred Compensation Plan; the Supplemental Annuity plans, both tax sheltered and regular; and the ACTS plan for college and university faculty. Again, these are all voluntary supplemental plans that you can get into on top of the other programs you're eligible for.

Deferred compensation -- the 457 plan is for State employees only. The Supplemental Annuity Collective Trust, again, is the regular post-tax and tax-sheltered, which is available only to education. And you've got additional contributions tax-sheltered for higher education, as well.

The Deferred Compensation Plan is open to all State employees. It's got a minimum of 1 percent of base salary. You can contribute up to $15,000 for 2006. This basically follows the same kinds of rules as the 401(k) plan, if you're familiar with those. If you're over age 50, you can put up to $20,000 a year in. They are some catch-up rules.

You have the regular SACT, Supplemental Annuity Collective Trust. It's open to all New Jersey public employees. It's only post-tax dollars. You can go anywhere from 1 to 10 percent of base salary, up to $15,000 per year. You can do quarterly adjustments. And distribution will come at retirement, termination, or death.

You have another SACT that's tax-sheltered, open to public education employees, and it's on pre-tax contributions. Again, it's 1 to 10 percent of base salary, up to a max of $15,000, with the same other rules.

You've got another tax-sheltered plan, the 403(b) plan, open to New Jersey higher education employees. It's pre-tax contributions. Again, pretty much the same rules as the other plans.

We'll switch gears now to get away from pensions and talk about the State Health Benefits Program. You have 802,000 covered lives. That's both State employees, local employees, participating local employers, and their dependents. We have seven health plans available, 11 dental plans -- and you'll see some differences later on -- a prescription plan for both the active and retired group. The retired group we just added a couple of years ago. This basically is a $3 billion spend.

Now, I want to quantify that. Three billion dollars includes the locals. So you'll see the numbers will be a little skewed when we talk about what the State's costs are.

The State and local employer groups include both State bi-weekly and monthly, local education, local noneducation. The active and retired group coverage is still -- got the seven health plans out there, 11 dental plans, and two prescription drug plans.

The State employee contracts in the active group: We've got 113,000. So as you're talking about these changes-- Again, the thing to remember here is, we're not just talking about the State employees. It's all the folks out there in the cities, and school boards of ed, etc. In the active group, we've got 113,000 covered lives in medical and prescriptions, 103,000 in dental. In the retired group, we've got 34,000 medical and retired -- prescription; and 10,000 dental. And the dental is all paid for by the retirees. So that's a fairly new program, but it's all retiree money. There's no State dollars involved there.

The local education and municipal contracts: At present, we've got about 981 participating employers. And we are losing employers by the year. We lost over 100 employers in the last couple of years. The employers had the option of contracting on their own or participating in the State Health Benefits plan. When you think about those over 1,500 employers participating in the pension system, that means that more than 500 of them are buying health insurance on their own, directly through a broker or an insurance company. But on the active side, we've got 119,000 medical, 34,000 prescription, and 1,100 dental. In the retired group: 91,000 medical, and another 29,000 in dental.

The medical plan offerings, active and retired, pretty much available-- Traditional indemnity: this is the old Blue Cross Blue Shield indemnity plan contract that paid you when you got sick. There's no preventative care involved. It's a pure indemnity contract. NJ PLUS was designed for the State. It's got 158,000 contracts there. And the difference here is, on the traditional side, you're required -- a participant is required to pay, from the State side, 25 percent of the cost. So we've seen a migration over the last few years away from Traditional to NJ PLUS, which has a no-cost provision. So you're not paying anything for NJ PLUS. The HMOs have about 75,000 contracts. And they are required to contribute 5 percent of the premium.

Again, variations of coverages-- The active member prescription drug coverage -- you've got a two-tier co-pay for generic and name brand. It's $3 and $10 -- $5 and $10. We have retail pharmacy, with a 30-day supply. And we have a mail-order program with a 90-day supply. The retired members have three-tier co-pays. And the retail pharmacy, again, 30-day supply; mail order with a 90-day supply. There are some variations of co-pay. I'm not even going to get into that now, because it triples if you get the 90-day supply. So we'll stay away from that. But I can give you more data on that later.

The dental coverage-- We've got two types of coverage: Dental Expense Plan, and 10 indemnity dental plans or dental plan organizations. I'm sorry, we have the Dental Expense Plan, which is indemnity; 10 expense (*sic*) organizations. I only have eight of them up here, so I'll skip on that.

Retiree dental coverage is Dental Expense Plan, indemnity only, and the member pays the full premium.

The voluntary benefit plans: These are programs that are entirely employee money. There's no State money involved here. You have a TaxSave plan. These are basically using pre-tax dollars to pay for certain benefits. And these are very common in the public sector and private sector. TaxSave allows for participants to put money away to pay for medical bills that aren't covered by the medical plans. Commuter TaxSave allows people to pay for commutation benefits: train tickets, bus tickets, etc., mileage -- through their pre-tax dollars. And then there's a long-term care plan, which is basically a direct contract with Prudential.

The 125 plans for medical: We have a premium option plan. All the employees are paying for premiums, where there is a premium, with pre-tax dollars, which reduces the out-of-pocket expense. When we say there's a 5 percent premium cost, you ultimately are paying less than 5 percent of the cost because you're doing it with pre-tax dollars. We have an unreimbursed medical spending account, which I mentioned. And we also have a dependent care spending account, which allows people to save money to pay for dependent care expense and, again, use pre-tax dollars to lower their cost.

Commuter TaxSave: I'll go quickly through this. Mass transit expenses, commuter parking expense-- So there are a number of participants in this, but they're fairly low.

And long-term care insurance: Again, it's all employee money. It's something the State -- was enacted through legislation a couple years back. It's open to all State employees, dependents, and retirees. And we're preparing the (indiscernible) to set up the local employers in the very near future.

What-- Oh, this didn't come up well. (referring to PowerPoint slide) This slide is supposed to have numbers on it, so I apologize. I think, if you look in your package, it's about three pages from the back. I don't know what happened to it. It had it when we sent it over.

But basically, the slide describes-- I'm going to get one myself. The slide describes the spending for the State benefit programs over time.

SENATOR GORMLEY: It's not a good one.

MR. BEAVER: Yeah, guess which ones the numbers are, right.

SENATOR SCUTARI: It looks like it's going up.

MR. BEAVER: But, basically, if you look at-- The far left axis is 2002, and the far right is 2010. The lower color -- the yellowish-orange color -- is the cost of pensions in the period between 2002 and 2010. And the numbers -- I guess I don't have a good line here on my own. I'll get the numbers for you in a minute. The next line up is health benefits/active. And the third line up -- the mauve color -- pink color -- is the healthbenefits/retired. And the small bar going up is the debt service, when the bonds were floated as a result of the pension bonding deal back in 1997. Let me get those numbers for you.

SENATOR SCUTARI: I think most of the members have the numbers.

SENATOR GORMLEY: We have the numbers.

SENATOR SCUTARI: Yes, we have the charts.

MR. BEAVER: Okay.

I was more concerned about the audience.

SENATOR SCUTARI: Well, it's $6.3 billion at the end.

MR. BEAVER: Right.

At the end, it's $6.3 billion.

Last year, 2006, $2.43 billion -- for the audience -- rising to $3.6 billion in '07, and then scaling up to about $6.3 billion in year 2010.

The other piece that was mentioned -- we just thought we would show you this. The pension system between '95 and '05-- The graph here describes the funded ratio versus the liability obligation. The funded ratio, right now-- As was mentioned earlier, we're about $18 billion underfunded on a market -- on an asset -- or an actuarial basis. What that means is, the asset -- the actuaries look at the assets on a snapshot. They look at the liabilities on a snapshot. The market value of the assets is changing continually. So we noted, last June 30, we had an unfunded obligation of about $18 billion. It's higher on a market value basis. But that's the difference between these two -- the liability. You can see the liability is going to keep scaling up. And hopefully the assets will scale up, as well, in the near future, since we've returned to funding the system.

One other thing -- and we threw this in at the last minute, just to make the Committee aware of this. The pension bond we owed was floated back in 1997. As you can see, this is going to rise to a huge cost over time. This is all back-loaded debt. So we've got very little going into the principal. We've got interest. We're not getting into big principal payments out to the year 2027. Up until then, we're paying largely interest on this debt. This was probably one of the biggest mistakes the State has made. It's nonrefundable debt. (applause) That's not good.

But just, again, to make the Committee aware of it-- We've been trying to show this slide around. I think the Governor's used this slide a few times. I know the Treasurer has. But this is very dangerous -- to use debt to fund the pension system. If you look at these costs down the future, we can refinance these bonds. To the extent they can be refinanced, they have been. We still look at the cost rising over time. We really back-loaded the cost to the State.

And with that, I want to end. I'm sure I've bored everybody to tears right now. It's a very dry subject.

But any questions you have, any-- Whatever we can do for you, we'd be happy to help.

SENATOR SCUTARI: Thank you, Director.

Chairwoman Pou, do you want to start with questions?

ASSEMBLYWOMAN POU: Thank you so very much.

Actually, I want to thank you, Mr. Beaver, for such a comprehensive report here. I know that we're going to have a lot of questions.

Let me begin by mentioning that I know what you talked about earlier, about the local government pension and the increasing amount -- about -- of the $267 million -- we've heard about that -- in the upcoming year. But even with that increase, on an annual payment, that it's not actually going to cover the 100 percent of that amount that we owe.

What do you believe-- What would be the actual costs to the local government to fund 100 percent of its liability this year?

MR. BEAVER: If you give me one second, I just need to find a number.

ASSEMBLYWOMAN POU: Mr. Beaver, while you're looking for that, I would also think that it would be important for us to also project what would be the actual cost for the local government liability in FY 2008, because it's-- You're using some of that same number for the $267 million.

MR. BEAVER: That would be fine.

The total funding required this year, if the locals were to put in all the dollars required, would be about $900 million.

ASSEMBLYWOMAN POU: Okay. Repeat that please. The $900 million will be, now, for what?

MR. BEAVER: For Fiscal '07 -- if the local employers were required to make the actual contribution -- the actuarial contribution would be around $900 million.

ASSEMBLYWOMAN POU: Incredible.

Let me now move on to just another area. But we may want to come back to the $900 million. Because then I think we need to also make sure that -- what will that really ask and require the local governments to do, in order to make up that difference?

Again, in your presentation -- and I had the benefit of having had a copy of your PowerPoint. And I appreciate you having submitted that to me earlier. But in the presentation, you indicate that the pension system provides loans to employees at only 4 percent interest. How-- Given that the mortgage loans are creeping up, in terms of a higher percentage at this point, in terms of the interest-- How many employees, at this time, have taken advantage of those local programs?

MR. BEAVER: I don't know if I can give you the number right now. We do over a hundred thousand loans a year. So it's a heavily used feature of the pension system. I can get you the number, if you'd like to know how many loans are outstanding, what the total dollars are. The total dollars outstanding -- we looked at it about -- we looked at it during the course of the Murphy study. So it would be before last December. The total outstanding amount was somewhere near $45 million in loans.

ASSEMBLYWOMAN POU: Are there other states that provide similar loans to public employees?

MR. BEAVER: The only place we saw-- A system in New York offered loans, and a system in West Virginia. How they did it was very different than how the State of New Jersey does it. But those are the only two we could find.

ASSEMBLYWOMAN POU: Okay. So out of all the states, we're talking about two other, other than New Jersey, that's providing that.

MR. BEAVER: Yes.

ASSEMBLYWOMAN POU: Okay. How does the State, then, in terms of doing that-- How does the State factor in the loss of that investment income from these funds that are pulled out of the system, in which the annual projections for the local and State government contributions-- How do you account -- calculate for that?

MR. BEAVER: I don't think we actually calculate a loss. The provision of loans is under statute, and the interest rate is set in the statute, as well. When we look at-- I don't think we necessarily develop a number for that. We just look at, at the end of the year, what's the liabilities, what's the assets, and figure out what the contribution requirements are. I don't know-- We ask the actuaries, "What do you value that at?" And they said, "For every 1 percent below market, you're losing about $11 million." Basically, we know we're losing it, but there's no recognition in the financial statements.

ASSEMBLYWOMAN POU: Well, what do you mean, you recognize that you're losing that? Is that part of the projection?

MR. BEAVER: No, it's not actually part of our pension projections. We actually just ask the actuaries for an estimate of the loss number, based on the -- when we were doing work for the Murphy report. There's no actual recognition of it in the financial statements.

ASSEMBLYWOMAN POU: Okay. Before I-- And I know many of our other colleagues have other questions. I just want to make mention-- Again, also, in your report, there was -- and there's certainly -- some of the reports that I've read in the paper, with some of the newspaper reportings -- there's a lot of talk with regard to State employees and the type of -- the fact that their pension and benefit is what it is because of the salary ranges. And it makes up the difference, in terms of the low salaries that many of our public career employees are making.

I'd like you to please let me know, have we ever compared that -- those salaries and benefits to the private sector?

MR. BEAVER: I'm not familiar with any studies to that effect. I'd have to check on that. I know the Division of Pensions has not, because clearly, we kind of tend to look at the pension benefits side of the equation. I would expect that probably might be in the Department of Personnel.

ASSEMBLYWOMAN POU: Well, I respect that. And what I was hoping that maybe you could say is that there has been some dialogue or communication between your Department and that of the Department of Personnel, to reach -- to come to some conclusion as to how those salaries are gauged, obviously in terms of the benefit. I think it's important for us to really have a -- have the benefit of knowing what -- how does that -- how do our salaries and benefits compare to the private sector, so as to show what is really, actually out there for our public career employees.

MR. BEAVER: I'd be happy to check on that for you.

ASSEMBLYWOMAN POU: Okay.

I have a number of other questions, Mr. Chairman. And I know that as we continue on-- I just want to open it up and leave it for some of the other members. But I'd like to come back to a couple of other areas that I'd like to cover.

Thank you.

SENATOR SCUTARI: Okay. Great.

Senator Rice, you had some questions.

SENATOR RICE: Yes. I'll work backwards. I was going to raise the loan question. Did the loans-- Is that not the employee's money?

MR. BEAVER: Well, you're borrowing against the balance in your account. Right. But, again--

SENATOR RICE: The total balance of the account, or the employee's pay into the account?

MR. BEAVER: The employee's balance.

SENATOR RICE: The employee's balance, not the State balance.

MR. BEAVER: Right.

SENATOR RICE: Not the State match.

MR. BEAVER: Right.

SENATOR RICE: So, technically, you're charging me interest on my money. (applause)

MR. BEAVER: Yes, but recognizing while the money is in the fund, the fund expects to earn 8.25 percent on it to fund your future benefit, which is one of the things that drives your current contribution requirement.

SENATOR RICE: I understand that. The point I'm making is that the 4 percent should basically cover that difference. I mean, when I say-- There may be a deficit. But the point is, you're still making money off of it, in some kind of way, to help offset the debt. I just want to put that in perspective. Because the way the Assemblywoman was driving the question, I got the impression that people forget it's our money that we're borrowing against, rather than going into a bank and saying, "Let me use your money, and I'll pay you interest." It's a little bit different there, for the record. And we're going to get back to that in the future, I'm sure, through these.

You raised, in the pension system enrollment, the issue of the variations. Can you explain the variations on those percentages of 5, 8.5, 7.5? Can you explain the difference? Why the variations?

MR. BEAVER: The police and fire system -- the 8.5 percent -- again, these are numbers, pretty much, carved in statute. But it recognizes the fact that there is a different benefit level, and we collect benefits in a different way than accounting for PERS or Teachers'.

Obviously, if you collect -- after 25 years, at any age, you can retire as a police officer; and State troopers can retire at age 55 or earlier, provided they've got the 25 years of service, with a very different benefit formula than you can in PERS or Teachers'. In PERS, you can't retire under age 55 without a reduction in your benefit of 3 percent a year. So if you look at the differentiation, both in the ability to retire earlier and the benefit levels, they look very different. So it's a recognition of the different benefit formulas. That's why you have different contribution rates.

SENATOR RICE: Okay. And just one other question for now. In the retirement benefit area -- when you mentioned that, for some reason, there was a 10-plus percent increase, every year, when you talked about the PERS and T, the PAF, and you were talking about the (indiscernible) 401s, I think.

Do you have any idea why that big increase?

MR. BEAVER: It's just that as people-- You're just seeing growth on both sides of the equation. You're seeing people retire, and you're seeing more people getting hired. So if you've looked at the numbers, the overall workforce at both the State and local levels continues to rise over time. It's just something that happens. I can't explain it. We don't have the information on the local level. But there's been an increase in the State workforce, an increase in the local workforce.

SENATOR RICE: Okay.

Thank you.

SENATOR SCUTARI: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Mr. Beaver, how many participants -- I don't expect this off the top of your head -- are enrolled from multiple employers? I'd like to see the numbers of people who are enrolled twice, and three times. I don't know if there's anybody four times. But if there is, I'd just like to see that.

With our State pension plan -- off the top of your head, how do we compare with the other 49 states, in terms of our unfunded liabilities? I've been told that our State plan, in spite of the 82.3 number you say, is still at the higher end, as compared to other states. Is that accurate?

MR. BEAVER: We're above the middle of the pack. Very many-- A lot of states suffered the same problem with the drying market a few years back, and the loss of earnings. So we're not at the high end, we're not at the low end. There's only a couple state plans now that are actually overfunded, being more than 100 percent. Most of them are in the 80 percent range.

ASSEMBLYMAN GIBLIN: Where would we fit, as far as New Jersey is concerned?

MR. BEAVER: I don't have the exact--

ASSEMBLYMAN GIBLIN: Top 20 percent?

MR. BEAVER: I can get that number for you. I have it back at my office. I'd be happy to get it for you.

ASSEMBLYMAN GIBLIN: Okay.

With the new investment practices that were developed several weeks ago-- You keep throwing the number around -- I guess an actuarial assumption of 8.25.

MR. BEAVER: Right.

ASSEMBLYMAN GIBLIN: Have you been meeting that over the last number of years?

MR. BEAVER: I believe, last year -- and, again, that's a different area. That's the Division of Investments. I think, last year, we were just somewhere over 9 percent?

We did 8.7 in 2005, and 9.65 in 2006.

ASSEMBLYMAN GIBLIN: Well, I assume with the new investment policies, one of the key reasons you went in that direction is to increase that number, correct?

MR. BEAVER: Again, I'm not speaking for the Division of Investments or the Treasurer, but I believe it was around diversification and minimizing the risk of having all your eggs in one basket, but also with the hope that you get better rates of return on a more varied portfolio.

ASSEMBLYMAN GIBLIN: Would you be able to provide the number of public employees -- and there are some, I know, at some of the autonomous agencies -- where these public employees have pension benefits directed to their labor unions, versus PERS?

MR. BEAVER: I'm sorry?

ASSEMBLYMAN GIBLIN: In other words, do our contracts-- I'll give you-- I know of a place where it exists -- up at the New Jersey Sports and Exposition Authority -- where employees, instead of being enrolled in PERS, have an amount negotiated that's forwarded to their respective local unions. You'd have to do kind of a survey. I'm just looking at this. This is an option for the future. In other words, people do not belong to the State Health Benefits, they do not belong to the PERS, they get the benefits from their local union, and they get their pension from the local union.

MR. BEAVER: I would have to check on it, because I'm not familiar with that.

ASSEMBLYMAN GIBLIN: Well, you can start at the Sports Complex.

MR. BEAVER: Okay.

ASSEMBLYMAN GIBLIN: It's definitely being done.

With the insurance that you provide -- the death benefits--

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: Is that provided through an insurance company, or is that self-insured?

MR. BEAVER: It's through an insurance company -- Prudential.

ASSEMBLYMAN GIBLIN: Is that not more cost-effective -- have you looked at that -- in terms of trying to provide it yourself?

MR. BEAVER: Well, there's a problem with self-funding insurance when it becomes taxable to the survivor. The beneficiary would have to pay full Federal income tax. When you run it through an insurance entity, the proceeds are not taxable.

ASSEMBLYMAN GIBLIN: With the-- There's a new rule you're going to have to include in next year's budget, as far as unfunded medical benefits. I guess the -- there's standards from the CPAs. Can you explain that to myself and to the group -- what that number is going to be in 2007? This has never been done before, correct?

MR. BEAVER: Right.

This is-- The Governmental Accounting Standards Board has issued two regulations, 43 and 45, which would require the State to recognize -- as many private employers were required to do some years back -- the unfunded, post-retirement medical obligation for their health benefit plans.

At the present time, we are working with our consultants now. We will not have a number probably until early 2007 on what the obligation looks like. We had a preliminary number done several years ago. We know it's somewhere above $20 billion. But the actuaries have to actually go out and evaluate, under current conditions, to develop a number for us.

ASSEMBLYMAN GIBLIN: What will that mean to the State budget in 2007? I mean, is that just a number on paper, or--

MR. BEAVER: It's a number that's recorded.

And, I'll ask John Megariotis to step up. He's a CPA.

It's not an actual out-of-pocket expense.

Let me ask John to address that.

J O H N D. M E G A R I O T I S: My name is John Megariotis, Deputy Director of Finance with the Division of Pensions and Benefits.

The new GASB promulgations do not change your actual funding requirements. What they do is change your accounting and disclosure requirements, and what you have to recognize as part of your financial statement presentation. So it really won't have an impact on what you have to pay. You can still make payments on a pay-as-you-go basis, as we do now. We pay premiums annually. But what it will do is, it will disclose to all of us, and to the public, what the liabilities -- the long-term liabilities associated with the obligations that have been incurred for the post-retirement medical benefits.

ASSEMBLYMAN GIBLIN: This question is to -- I don't know if you can answer this -- with the local governmental units opting out. I think Mr. Beaver said there was over 100 last year -- 150, is that correct? -- that opted out. And what were the number of participants with that?

MR. MEGARIOTIS: We don't have that number with us.

ASSEMBLYMAN GIBLIN: Okay. Well, how many governmental units opted out? You said 150, I believe.

MR. MEGARIOTIS: It was in excess of a hundred.

ASSEMBLYMAN GIBLIN: Okay. Well, I assume one of the key reasons they're opting out is because it's -- they can get benefits at a reduced rate, or more effective number. Is that kind of logical to assume? I mean, that's what I hear from the local entities -- that they're saying that the State Health Benefits Plan -- for whatever reason, they can do a better job themselves, in terms of managing the cost.

MR. BEAVER: I think there's a couple of reasons. Where you'll see some plans opt out is if they have some good experience. They'll have a couple of years of good experience, and the broker will come in and suggest to them that they can get a better rate through a private carrier outside the State Health Benefits Plan. In those cases, we often see the groups come back in after two or three years, because they'll get a sweetheart deal for year one, maybe year two, and then in year three they get hit with a big premature birth claim for a million dollars. And then all of a sudden the rates get jacked up.

The other case where it happens is--

ASSEMBLYMAN GIBLIN: Just one thing on that. Don't we make it a little bit difficult for them to opt in and opt out? I mean, I'd like to see what municipalities did that over the last couple of years -- that jumped out and jumped back in. And it just seems to me that they should share with some of the pain of trying to get back in, like a reentry fee. Just to do that is going to choke the State.

MR. BEAVER: Right. And that's one of the things -- one of our problems. There are no impediments to moving out or moving in. So it's a free ride. You can move out, get a couple years of a good deal, come back in, get rated back in with the local groups. Because the groups are rated separately. We rate local groups differently than the State groups, differently than education groups. So we rate experience based on what group you're in.

The other piece that has them moving out, on occasion, that we know, is the lack of flexibility they have with our plan. They can't do certain things that they'd like to do, in terms of negotiations. But that's a local issue.

But we can get the information as to who's moved in and who's moved out in the last few years. We'd be happy to do that.

ASSEMBLYMAN GIBLIN: Is there any exclusion -- and I've seen this happen -- where people in pension plans take their pension, and then the following Monday come back in a different title, with the same employer, and the same office, and start to run a different salary because of a title change?

MR. BEAVER: They try to.

ASSEMBLYMAN GIBLIN: They're doing it. They're not trying to, they're doing it. I can tell you they're doing it. They do not even leave the office. They just take their pension, come back with a different title. Then they start to work. I don't-- There's no exclusion on that.

MR. BEAVER: Well, we'd be happy to look at your cases. We have an auditing unit that goes out and finds those people. And we bring them before the pension boards every month. And we tell them, you've got to be enrolled. We do it periodically. On a regular basis, we have auditors going out there every month.

The data gets reported to us. Unless an employer-- And I will tell you, the employers will play games with reporting data to us. But we go out and check it. And we do our best to come out and find these cases.

ASSEMBLYMAN GIBLIN: Well, hypothetically though, maybe just--

MR. BEAVER: I'd be happy to--

ASSEMBLYMAN GIBLIN: I've seen it, like, in the same office, where people have done it. But I'll give you an example. Hypothetically, a police chief takes a pension, works for the same municipality, starts as a public works director the following Monday after he retires. Is that permissible?

MR. BEAVER: No, you have to have--

ASSEMBLYMAN GIBLIN: Six month lag?

MR. BEAVER: Thirty-day.

ASSEMBLYMAN GIBLIN: Thirty-day lag?

MR. BEAVER: Yes.

ASSEMBLYMAN GIBLIN: That's all you need?

MR. BEAVER: If you're not out for 30 days, it's not a bona fide retirement. We reenroll you. If you're out for 30 days, and you're retired, you can come back into the public employees system. You cannot earn more than $15,000 a year.

ASSEMBLYMAN GIBLIN: Yes, but I'm talking about somebody who is a police officer, retires as a police chief, and then goes to work the following Monday as the public works director, which is not in the police and fire system.

MR. BEAVER: Totally permissible.

ASSEMBLYMAN GIBLIN: Totally permissible.

MR. BEAVER: Yes, sir.

ASSEMBLYMAN GIBLIN: That's what I thought.

MR. BEAVER: Yes.

ASSEMBLYMAN GIBLIN: This other thing with the insurance-- I know, traditionally, folks have been in the indemnity plan-- Are you making the transition to -- what do you have, point of service, or PPO?

MR. BEAVER: Point of service plan, yes.

ASSEMBLYMAN GIBLIN: I mean, are you trying to push people into the point of service because there's no out-of-pocket, so to speak?

MR. BEAVER: Well, I think the requirement to contribute the 25 percent toward a Traditional Plan-- As that premium rises over time, we've seen a migration. We've got a very small group. I think it's only around 21 or 22 percent of the employees who remain in this original plan. The rest of the employees are either in an HMO or the point of service plan, New Jersey PLUS. So I think the driver was the shift in premiums that-- The Traditional Plan requires 25 percent contribution, and the NJ PLUS plan requires no contribution.

ASSEMBLYMAN GIBLIN: Wouldn't the tendency, though, for people to be -- in the indemnity plan -- to remain in there and pay the 25 percent, especially if they have a chronic illness? A lot of employers in the private sector are not giving you a choice. They're telling you the indemnity plan is going to be terminated. And then they're forcing people into PPO.

But that's it. But I don't want to-- I just threw some of those questions out there. And I'll certainly have more later on.

MR. BEAVER: Okay.

ASSEMBLYMAN GIBLIN: Thank you.

SENATOR SCUTARI: Assemblyman O'Toole.

Thank you, sir.

ASSEMBLYMAN O'TOOLE: Thank you, Chair.

Just following up-- I happen to agree with Assemblyman Giblin, that there seems to be some gaming or some abuses of those individuals who retire on Monday and come back 30 days -- 31 days -- in an identical position or a similar position in the town hall. And if you could just give us information as to who audits that, that would be very helpful to us. And, perhaps statutorily, we really need to look at that area.

Director, have you been asked for recommendations? I mean, you've had, obviously, a wide experience. Your office has great depth and have dealt with these issues. While we are having this public series of hearings, are you going to proffer up recommendations that could stabilize the pension systems' health benefits, or give us areas that we think we could mine for some decent public policy (indiscernible).

MR. BEAVER: We can certainly deliver information to the Committee for their consideration, sure.

ASSEMBLYMAN O'TOOLE: I would hope that we, at some point, Chairs, we could ask for that information. I think, given the length and breadth of the experience of that office, I'd love to have recommendations from that office at some point.

A couple of other areas. Director, if you could provide to this Committee -- because there's great disparity as to the costs associated with the State Health Benefits cost of the current employees and retirees, pension costs -- and have those mapped out in the county, in the authorities, municipal, teachers -- all of those public employees. I really want to see what the aggregate cost is for pension costs on an annual basis, health-care costs for current employees and for retirees. I'm trying to find out what that whole number is.

MR. BEAVER: We can develop that for you, certainly.

ASSEMBLYMAN O'TOOLE: If you can just forward that to the Chairs. I'm sure they will forward that to us.

A couple of other questions. And at some point, Director, I'd like the opportunity to come sit with you, because I have a bunch of questions that are just somewhat rudimentary, and would love to sit down and try not waste this Committee's time, but pick your brain on some areas. If that would be appropriate at some point, I'd like to sit down with you.

MR. BEAVER: My staff and I will be available to the Committee either individually or as a group any time. We're at your call.

ASSEMBLYMAN O'TOOLE: Great.

Director, just turn your attention to Page 30 of your presentation, with regard to the alternate benefit program. I'm just curious about -- to the second point about vested after one year. Is that about the portability issue? I'm just curious as to why one year. It seems to be an extreme express path for vesting.

MR. BEAVER: It is-- Remember the way it is designed to be a very portable plan, because teachers tend to move around between the colleges. And it's not unusual, in looking at plans of this design, to see a one-year vesting provision. I don't know if I can give you any more specific an answer than that, just the way the plan was designed.

ASSEMBLYMAN O'TOOLE: Okay.

Thank you, Director.

Through the Chair, Page 51 -- State Benefit Program Spending -- if you could just walk me through, just a little bit. It starts in 2002. You have, roughly, a billion dollar indebtedness or obligation. And then in Fiscal Year, I think it's '07, it's 3.6; and '06, it's 2.4; and then it goes, in 2010, to $6 billion. And I'm just trying to understand how, in 2002, we have a billion dollars, and we're talking about the debt service, health benefits/retired, health benefits/active, and pension. The aggregate, as I understand it, is about a billion dollars in '02, and how does it go to 2.43 in '06; 3.6 in '07; and 6.3 projected in 2010?

MR. BEAVER: Well, I think a couple of things happened. One is, if you looked at that lowest piece, the pension piece, basically through '06 there has been virtually nothing going into the funds. So that is a huge hit from last year, jumping from a $200-plus-million contribution in pension funds to just around $1.1 billion this year. That was a pretty significant impact right there. That, and also the health benefits for retirees continue to grow rapidly over time.

ASSEMBLYMAN O'TOOLE: Why is that?

MR. BEAVER: We've got more and more people in the group. The cost -- remember the cost the State is paying-- If you look at this year, about $2 billion for health benefits. About $1 billion of that, if you just divvy it up, about 1 billion is for the retirees. That number is projected to grow over time. As a matter of fact, I have some numbers here you might be interested in.

ASSEMBLYMAN O'TOOLE: But as you're answering that, Director, was it an anticipated trajectory or increase from '05, '06 to 2010, or was that an accelerated increase? Was this projected, or was there some mechianism or occurance or event that allowed *X* amount of retirees, above and beyond, that were subject to the year before, to pop up on the screen?

MR. BEAVER: There's two pieces jumping here, okay? The pension piece is going to go up geometrically, or almost -- it's just doubling or quadrupling, because you've got years you've put no money in. We've got this unfunded obligation of every year we reammortize over a 30-year period. So the number is going to keep rising. For all the years the money was not put in, you're increasing your costs in the out-years.

On the retiree side, we went from a cost -- and I think part of it is not just the numbers of retirees, which are growing, but also the utilization of those retirees of benefits. We had a cost -- and I know, in 2000, the cost for retiree benefits were about 700 million. The health benefits were about $700 million, your health benefits. It jumped to $2 billion this year, and the current projection is they're going to rise out to -- I think the number is here. I've written these down separately, because I thought they were important to the group. The health benefit numbers -- let me just give you some numbers to think about -- in 2000, were $798 million. In '07, they're rising to $2.1 billion, with 1.04 for active and 1.08 for retiree. Now, on the retiree side of that, as I said, two-thirds of that -- 66 percent of that -- is for teachers and board of eds. So it's not even State employees. So it's other than State employees. By 2010, we project that 212 to rise to $3.6 billion. That's just normal -- between the numbers of people, and also the medical inflation rate that's out there, our utilization. We've got a high utilizing population.

ASSEMBLYMAN O'TOOLE: That's my point -- that drives the number from 700 million to 2.1 billion. Is it half because of the shear number of individuals that are taking advantage of the system, or is it -- and 50 percent because of the increase, or inflation, as you say, for medical costs?

MR. BEAVER: I'd like to come back to you with that number and get something more specific for you.

ASSEMBLYMAN O'TOOLE: If you can define that--

MR. BEAVER: Yes.

ASSEMBLYMAN O'TOOLE: --and give us a reason as to the rapid escalation, I'd appreciate it.

The next page, Page 52, entitled Asset/Liability Comparison, All Systems Funded Ratio: 82.3 -- I'm trying to follow the graph here, that '95 through '01, '02, essentially there's a mirroring of growth of assets and liabilities. At some point -- '02, '03 -- liability jets up on a rapid incline; assets decline or go into a soft hole. I'm trying to understand. Is that a temporary decline with the assets, and is the trajectory in liabilities going to continue at the rate that it's projected at in '05, '06, '07?

MR. BEAVER: The liabilities are going to pretty much arch up in the same pattern where it is. We've yet to see a flattening out of that number. Hopefully, you'll see the asset line return in somewhat of an upward slope as opposed to downward and flat. But the liability line is just going to just keep ramping up. So what you saw back in '01, where you start seeing the liability start crossing the asset line, is a couple things happened here. One, the market went south, and our actuarial evaluations are always two years behind because of the amounts of data required to figure out what your contribution rates are. As we're always two years behind, in terms of using the--

For example, the 1999 report drives 2001 contributions. So you have that lag. But the market went down. But also, in 2001 -- that's when they had the "and-over-55" come into play. So that in itself started ramping up your liabilities at a faster pace, because you improved the benefit formula.

ASSEMBLYMAN O'TOOLE: And the softening of the assets, is that projected to continue in '06, '07, even though I know we're two years behind?

MR. BEAVER: What we're hoping is -- I mean, again, our target is for an 8.25 percent of return. That's the system target, based on the actuaries estimates and the actuarial requirements. The hope would be that the system would earn more than 8.25 percent, which will allow that line to move up faster. But again, that's the Division of Investments and Pensions. The hope would be that the improved returns and the increased funding-- When you think about it, you're putting a billion dollars in the system and that's on an 8.25 percent -- that, in and of itself, as we return to full contributions, is going to help that line move up faster.

ASSEMBLYMAN O'TOOLE: If you can, again, break out the division I've asked you for--

MR. BEAVER: Yes.

ASSEMBLYMAN O'TOOLE: --and through the Chair, I'd appreciate that.

Thank you, Chairman.

SENATOR SCUTARI: Thank you.

Senator Gormley.

SENATOR GORMLEY: Thank you.

If you have a dollar number that you were to put into the pension system, what would cause -- what gross dollar amount, infusion, do you think? Is it 3 billion, 4 billion? What would bring back credibility to rating agencies and everybody, in terms of the pension system in New Jersey? Let's say the number is 18 billion, right now, that's collectively owed. Is it 3, 4, 5 billion -- showed that we reverse the trend? Is there a number, that you would say that would be a goal, that would put the pension system back on track and simultaneously improve our credit ratings on Wall Street?

MR. BEAVER: I'll just give you, again--

SENATOR GORMLEY: Go ahead.

MR. BEAVER: Well, I think we got a favorable response from Wall Street with the move to put over a billion dollars in this year.

SENATOR GORMLEY: Well, that was back when we were doing nothing. So, obviously, that was a big improvement. But what gross number, because-- Let me just put it this way, the Governor is looking at asset sales. Everybody knows what the problems are. There's the deficit that we have. There's the pension deficit. There's a health care deficit. These are all debts that are sitting out there. Obviously, I'd prefer asset sales for infrastructure. But let's assume some might go towards some of these problems that we've dug a hole in. What would be the number if there were that asset lease available? What would be the number that you would say, that would go into pensions, that would make a difference?

Think abou it and get back with me, would you please?

MR. BEAVER: Thank you.

SENATOR GORMLEY: Okay.

Well, we might as well get to the big number -- we might as well get to the numbers.

Now, there's a-- One of the pages -- and excuse me, I don't-- Oh, it's Page 10. It's the one with the 55 number in it, that was done in 2001 -- that I voted for -- changing one of the factors from 60 to 55, that caused a 9.5 percent increase. Let me ask a question. Were you consulted on that before that occurred? And I want to know what you actually told the then-officials that supported it and told us it could be met. What did you tell them at that time when they-- Oh, you've been waiting for this question for five years. (laughter) I'd like to know what you told them before they started baking things. Would you please?

MR. BEAVER: Well, I might ask John Megariotis. Five years ago, I was laying on the beach down in Wildwood, because I was retired at the time. (laughter)

SENATOR GORMLEY: You were retired. Oh, they brought you-- Well, maybe he could come up and say what were the direct conversations he had when this came up that we didn't hear in the Legislature?

SENATOR RICE: That was March, wasn't it?

MR. BEAVER: I can -- I'm going to try to give you an answer here.

SENATOR GORMLEY: Go ahead.

MR. BEAVER: I came in right after this change was factored in. I did go back and I read all the things that happened, and I read all the arguments for it. I read who voted for it. I read who lobbied on its behalf, and everybody was in favor of that number 55.

SENATOR GORMLEY: Absolutely.

Now, I want to know, what did the staff say? Because I bet you they might have said we were all wrong. Was there any internal memos? Were there any conversations when this occurred, internally, among people who know the system, saying we shouldn't do it?

MR. BEAVER: That I'd have to check on.

SENATOR GORMLEY: Would you please check on that? Okay? Because I would be interested -- because obviously that age has to change, because it wasn't based on real fact.

MR. BEAVER: Well, again, just remember--

SENATOR GORMLEY: It was based upon a projection that wasn't real.

MR. BEAVER: The "and-over-55" is not the age 55 piece.

SENATOR GORMLEY: I understand that.

MR. BEAVER: This is the new way of performing.

SENATOR GORMLEY: Exactly. And what we did is, we did numerator changing.

MR. BEAVER: Right.

SENATOR GORMLEY: We went from 60. We went to 55. We had a projection; there was going to be a separate fund that was going to take care of this.

SENATOR RICE: Right.

SENATOR GORMLEY: Where -- does the fund exist?

MR. BEAVER: The Benefit Enhancement Fund was consumed over the last few years to "fund" pensions.

SENATOR GORMLEY: So in other words, we put a little bit of money in -- there was supposed to be billions to go into this, and it doesn't exist. We don't want to spend too much on history, but obviously it was never funded. I want to know what happened, and I want to know who, shall we say, among the staff was saying, "Are you crazy?" Because in retrospect, it doesn't look like we were-- We were told there would be a fund. We were told this would be covered, etc., etc. I don't want to dwell on it too long, but we don't want to repeat the mistakes of the past.

MR. BEAVER: Right. I'll look into it.

SENATOR GORMLEY: Thank you very much. I appreciate that.

Did you ever hear of something that happened in Camden County which I-- They have funded a pension plan for people that only had five years in the system. Was it five years? Health benefits for five years. Were you ever-- Did you have any -- did the State have anything to do with that? Did anybody ever call you about that? Were there ever any conversations about that?

MR. BEAVER: This was outside the purview of the State Health Benefits Program. Yes, we were contacted by the State Police, that was investigating how they were doing this. And I think it actually hit the papers for a while. These were some folks who, I think, went out on disability and were provided with benefits, although they didn't qualify for the benefits, or retired under the pension side, as a disability pension. But they were doing something with Camden County, providing benefits that were-- The statute says you have to have 25 years in health benefits, whether you're local or not. To get free health benefits, you must have 25 years. And they were providing the benefits -- people were not accumulating enough time to qualify for benefits.

SENATOR GORMLEY: Do we have any safeguards so this can't occur again?

MR. BEAVER: I can only speak within the State Health Benefits Program. I can't-- And what the local employees are doing is very difficult for us to--

SENATOR GORMLEY: Well, respectfully--

MR. BEAVER: Yes.

SENATOR GORMLEY: Because the issue is property taxes. And this affected property taxes dramatically. I guess the issue is, what would you like to see? Not putting more of a burden on you, what enforcement arm should be watching local governments so that this isn't replicated? Does one now exist? Don't answer. Just, would you check that out?

MR. BEAVER: Yes.

SENATOR GORMLEY: We'd like to see what happened there.

Also, could you give us -- and you can't go by other-- Just for background purposes, I would like to know -- between the union employees, nonpublic -- I would like to know if we could have a survey done of other states and nonpublic unions in terms of benefits, in terms of ages upon retirement. In other words, it's different states, different -- negotiations are different. I'm not saying it will be dogma, but I'd like to have the comparison while we're going through this review, if you could compile it?

MR. BEAVER: It will take a little time, but I'm sure we can.

SENATOR GORMLEY: I know, but I think-- And as I said, sometimes it's apples and oranges. But I would like to see the category of other negotiating units, where they've gone, and what those comparisons are. Because people will say to us, "Well, I'm 62. I'm 65. I don't get this benefit or that benefit."

Thank you.

Then to follow up on what Assemblyman O'Toole said, any ideas that you might have. I know I can't speak for the other members of the Committee, but, obviously, any ideas that, shall we say, that you've thought about, we would really like to hear. Because you're a great resource. You've got a wonderful reputation. And whatever suggestions you would -- if you were ever asked, if you got to be the legislator, what would you want to see put into law? And I would very much appreciate that input.

Thank you.

SENATOR SCUTARI: Thank you, Senator Gormley.

Mr. Beaver, I have a few questions and some thoughts. You, obviously had a lot to do with, and were a resource in what was a collaborative effort -- what's commonly known as the Murphy report, the benefit task study. Are there any aspects of that report, in terms of its recommendations, that you can point to today that you might disagree with?

MR. BEAVER: Given the context of the Murphy report, we had a very short time frame to put that final document together -- it was six months. I think it would have been helpful to get a little more comparative data to look at things, like the suggestion of moving to a five-year average. I'm not sure that that's necessarily the way I would make a recommendation. The three-year average is currently the State's. The formula is not an unusual arrangement, and it's a very common fact in both private and public sector plans. I have to think about that one and see-- I have to go back and look at the report and see what we disagree or agree with. I think the suggestions were in the tacking, and padding, and boosting, obviously. It had just become very -- obviously, there's some problems there. And we see the problems all the time in the Division. So I think they would be important to take and to note.

SENATOR SCUTARI: Well, my suggestion -- what I'd like -- and I think it goes along with Senator Gormley's thoughts, is: I'd like you to go over that report. And I think every member of the Committee has gotten a copy of it, so we can look at that as a starting point in terms of what research has already been done. But I'd like you to give us a ranking in terms of importance, with respect to what recommendations might be made by this Committee for pension and health benefits reform -- for our consideration, whether or not we accept it or reject it. Obviously, I'd like your thoughts from that. But what else I'd like -- and it may be difficult for you to put together at this point -- is a cost-benefit analysis. How much each of those recommendations would save, not just for the State, but for overall local municipalities, so we can consider each of those recommendations with hard dollars. So if certain things are recommended or if we decide to consider that, how much we might consider saving. And then that would translate, hopefully, into property tax reduction, based upon the reform of that system, in one way or another. And I would -- obviously, that's going to be an estimate to that. But I'd like that for each of -- whatever recommendations the Murphy report came up with, as well as your organization, for us to at least consider. And I'd like that in a ranked order, if possible.

MR. BEAVER: Fine.

SENATOR SCUTARI: And I also want to go over all the other things that the members requested of you, so we can start-- There's a lot of things that you've been asked, and the Co-Chair and I would like to at least address those and look at how quickly, because there may some importance to each of those things that were asked for.

I have a question for you, to follow up on what Assemblyman O'Toole talked about earlier. The funded ratio of the pension -- I think you listed 82 percent. Where do we stand, nationwide, in terms of our rank of how we are funded for our projected liabilities?

MR. BEAVER: I have the actual data that shows rank from high to low. Well, I have it in the graph form. We were running in the middle of the pack. But the middle of the pack is a very tight spread. It's not -- the middle of the pack is not 45 or 50 percent, it's 78 percent, 85 percent. So I'd like to go back and get the actual ranking, the data, and look at it, and report back to the Committee on where we stand in numbers.

SENATOR SCUTARI: Now, you had projected, or at least your target goal is 8.25 percent on a market return for the investment?

MR. BEAVER: That's the actuarial estimate -- the required rate of return in order to meet the funding requirements, yes.

SENATOR SCUTARI: Now, if there were a sudden uptick in the stock market or the markets in general, would that affect the ratio of liabilities versus the funding?

MR. BEAVER: It would change the funded ratio if there was a sudden swing in the marketplace. But again, this has to happen over an extended period of time. If you remember, that's exactly what occurred when the "and-over-55" change went into effect. There were a lot of surplus assets out there that were used to "fund" that benefit.

SENATOR SCUTARI: On paper?

MR. BEAVER: We only recognized a gain or a loss at 20 percent a year. So if the market went up -- if there was a $100 million gain or billion dollar gain in the funds this year, the next actuarial report would only recognize 20 percent of that billion dollar gain. So you do that to avoid the big shifts.

SENATOR SCUTARI: Obviously, the two major contributing factors to the unfunded liability is the lack of contributions and the market factors, in combination?

MR. BEAVER: Yes.

SENATOR SCUTARI: Another thing that we had spoken of before the meeting, and what I think the Committee has to consider at least thinking about, is an alternative to Defined Contribution Plans. And I just don't mean ones that are for future employees. Not necessarily just a standard Defined Contribution Plan. But you've indicated to me, and I think other members are interested in, alternative means that other states are doing, that you had talked about. There is more than just one plan for an alternative to Defined Contribution Plans.

MR. BEAVER: Yes. I'd like to suggest we develop some options for the Committee's consideration. The different ways to do this -- I mean, it's always-- The most popular thing is to throw out a 401(k) plan. There are different vehicles out there that can deliver similar results but look differently to the employees. But again, we would come up with some ideas and give you some estimates of what the impact would be, but recognizing that any impact in those types of planning reductions, if it was for new employees, is many years out in the future.

SENATOR SCUTARI: We're talking about a plan that might provide similar benefits to a defined benefit plan, but in actuality and technically be a defined contribution.

MR. BEAVER: That's possible. They have things called *cash balance* plans. They have hybrid plans that have a defined amount of money going into the employee, as much as the PERS system has, for example, at 5 percent. And then you've got an employer contribution. Then it gains earnings and interest over time and can still be paid out as a monthly benefit. So there are other vehicles out there to be looked at as well.

SENATOR SCUTARI: Well, what we'd like to do is have those vehicles for our considerations, for perspective, going forward at this point in time, if the Committee considers changing what we provide new employees. And I'd like to go over that list with you before we leave, in terms of what information--

Madam Chair, do you have questions? I know you had some follow-up questions, and then I'll go back to the Assemblyman.

ASSEMBLYWOMAN POU: Thank you, Senator.

Actually, I wanted to pick up on something that both my colleagues, Assemblyman O'Toole and Assemblyman Giblin, talked about, and that was on the unfunded liability for the PRN. And I would ask, while you're putting information together, if you could also put together -- go back and provide us with a 20-year history of the PRN unfunded liability, leading up to the point where the recording changes kick in at this time. So if you can provide us with that 20-year history.

MR. BEAVER: I would tell you that those numbers have never been developed, because there was never a requirement to do so. So to do it now, looking back, would be very expensive, almost impossible, I'm afraid.

ASSEMBLYWOMAN POU: Well, that's interesting.

MR. BEAVER: Because there was never a requirement to do it. How this can be done is, we'll look at the population -- and it's going to look at the life expectancy of the participants and the future participants -- and develop some expectation of what the medical claims will be over time, and come up with a present day cash value -- a present value of today.

ASSEMBLYWOMAN POU: What's your--

MR. BEAVER: We can show you what the outlays were over the last 20 years, what the State spent, what the local employers spent, but that has no relationship with future obligation for retirees.

ASSEMBLYWOMAN POU: Okay.

Wasn't there some discussion or information that the amount of the unfunded liability at this point may rise anywhere to a dollar amount close to $20 billion? How are you arriving at that number if that information has never been maintained?

MR. BEAVER: A couple years back, when they started kicking around the idea of requiring the State to recognize its obligations, private employers had to do it, back in the mid-'90s, under the FASB rules. The State never had to do it. So we asked the actuaries to look at the numbers -- given this current population, what do you think that obligation might look like? But again, recognize these are always a snapshot. And it looks at your population, both active and retired, and develops a future obligation.

It's just that we asked the actuaries to do a preliminary number for us -- not a lot of detail, because we didn't want to incur the expense -- but given what you know today, what do you think the obligation might be? And that's where they come up with the $20 million number. It was never a formal study. It wasn't anything that we would submit through our -- in our financials. It was never required to be submitted in the financial statements of the State, or any other public employer for that matter, and it's just something you didn't want to spend the money on.

ASSEMBLYWOMAN POU: So what can your office, at this time, provide us with, that would come close to providing us with that information, based on your current information? What can you provide us with?

MR. BEAVER: At this point, as of today, nothing. The actuaries are working. We've just started working with the actuaries. We have to have the number developed for next June.

ASSEMBLYWOMAN POU: For -- right -- 2007 is when you have to have that.

MR. BEAVER: The end of June 2007. Right.

We just started working with them now, recognizing the other demands on the Division, to develop a number for us.

ASSEMBLYWOMAN POU: So what would be on the table in preparation for that, to give you those numbers? What are you going to be using?

MR. BEAVER: In the absence of having the final number, I don't-- What we have to do is deliver all the demographic information of current participants and who's using it, and where our usage rates are. We have to develop some assumptions about future usage requirements and future retirement rates, life expectancies -- things of those sorts -- and let the actuaries do the work. It's a huge number crunching exercise. They're taking every participant in the state and looking at what we expect to happen to them over time.

ASSEMBLYWOMAN POU: Okay.

MR. BEAVER: So I don't think we're going to have anything until early 2007, at the earliest, unfortunately.

ASSEMBLYWOMAN POU: Very well. Okay.

Thank you.

SENATOR SCUTARI: Thank you, Madam Chair.

I think we have a few follow-up questions.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Just one question. Going back in 2001, if my memory serves me right, the factor was changed -- the number of years over 60 to the number of years over 55 -- which was the equivalent of a 9 percent raise. The second component, which hasn't been mentioned here, was that, at that time, there was an incentive for people age 60, with 20 years of service -- that they receive an additional 3 years of credit. Is my memory right on that?

MR. BEAVER: There was an ERI plan in 2002. I think the benefit was enhanced -- and I'll ask John Megariotis, again, to talk to this one. Okay, it was 2002, the ERI. In the Spring of 2002, an ERI for State employees was announced to encourage retirements, yes.

ASSEMBLYMAN GIBLIN: Okay. Well, if I do that quick math off the top of my head, if you change the factor from 60 to 55, that's

9 percent. And if you give somebody three additional years of service, at 20 years of service, that's 15 percent. So somebody age 60 got a 24 percent increase in their pension in that period. Is that pretty close?

MR. BEAVER: Yes.

ASSEMBLYMAN GIBLIN: Okay. What, at least to me, is the whole issue -- the point of benefit changes in the future, Mr. Chairman, Madam Chairman. I think it behooves us as a Committee to recommend that any changes in the future, first of all, should be accompanied with a fiscal note; and also, from a certification -- from an actuary, what these numbers will be, as far as the future is concerned. It just seems to me anybody in that period of time -- I know there might be political issues on both sides of the fence, but I just looked at it from afar and said, how are you paying for that? And we're seeing this differential between the 82 percent. That in itself probably caused that 82 to 100, just with those two proposals. I bet you it was very close to it.

That's my last question.

SENATOR SCUTARI: Thank you very much, Assemblyman.

Senator Rice, you have a follow-up question?

SENATOR RICE: Yes, just briefly.

I want to go back and raise the issue -- we're paying for the Health Care Benefits for someone. And I know I get the Blue Cross Blue Shield; Aetna; or somebody -- I don't know exactly which one. But the point is, is that, do you believe or do you feel that we can take a look at the industry as well? I mean, regardless of what we do, we still have to purchase. And I won't forget the years I've had here where we had -- always seem to go back and take a look at insurance industries for things they may have been hiding. One time it was double-booking in some industries, excess profits. You know, has anyone paid attention to the industry themselves?

MR. BEAVER: Well, I would leave that to, I think, the Department of Banking and Insurance. But I would tell you that our plans are not insured. We're pure self-insured. The size of the programs allow us to dictate the terms pretty much on how we're going to pay; and we negotiate, very carefully, the administrative fees that we pay the provider. We pay for claims. It's not an insurance policy: we're paying premiums, and we could be squirreling some of the money away. We pay claims, plus administrative expenses. So it's not an insurance contract. The individual is insured, but the State is not.

SENATOR RICE: But we're paying somebody, right, within the industry?

MR. BEAVER: We're paying Horizen for the most part. They're the biggest provider, traditionally--

SENATOR RICE: My question is whether or not-- See, we can't say the State versus the employees. In other words, if we're paying money, if we're controlling the judiciary responsibility, should we not be looking at the industry on behalf of employees in terms of what we're paying out?

MR. BEAVER: Well, we do look at the carriers we deal with and audit their contracts, and make sure they're paying out only claims on behalf of our employees, and that all the expenses are justified. And we do audit and check on all of this.

SENATOR RICE: So your question (*sic*) is, there's no need to look at the industry?

MR. BEAVER: Well, I'm not--

SENATOR RICE: (indiscernible) exercise. Why don't you go back and think about it and talk to the industry--

MR. BEAVER: Okay.

SENATOR RICE: --to the Department of Insurance and Banking, talk to your employees, and even the union reps if you have to, just to make sure that we don't go one way and leave an element out of the process, of scrutiny here, so we can do the analysis.

The final thing is that there's a lot of questions for information which I support, and I had notes to raise the same. But my concern is always -- New Jersey's, always comparing apples and oranges when we do things. I would hope that any information that we receive, in reference to other states, that we're talking about some of the same elements and variables in terms of population, in terms of workforce. But also, in the cost-benefit analysis, keep in mind that there's some space out there to knowing there's nonunion states. And for some reason, I think that may have an impact on what we're doing versus a nonunion state. We need to look at the cost of living in those states versus the cost of living here, and as we move through them-- Because we need to look at the salaries because -- and not from a percentage base, from a ratio basis. Eighteen thousand may not necessarily mean $18,000 in other states, because of the cost of living, which means we're going to skew everything we look at if we don't do the analysis or comparative thing. I'm going to put that on the record. We have the tendency of paying for (indiscernible) to do things. They come back and leave so much out. And they get older too. They just don't get the benefits of health and pensions.

That's all.

MR. BEAVER: Okay. Thank you, sir.

SENATOR SCUTARI: Senator Gormley, do you have a follow-up?

SENATOR GORMLEY: We're going to get to -- which is by the nature of the calendar -- we're going to get to November and December. And then obviously we'll be asking you, "Well, does this solve it? Does this solve it -- does it solve it?" I think this is a question I should ask you. I think it's got an obvious answer. Obviously, anything we do as a reform package, you would be much better able to comment upon if we knew what the, shall we say, final negotiations would be on the contract side by November. Is that a fair characterization?

MR. BEAVER: It's always easier when you know the details, certainly.

SENATOR GORMLEY: Okay, fine. Okay.

Well, I guess my point is, the initial point that I brought up. Therefore, if we know what that number is going to be, and we look at the property tax dollar and how it's divvied up, we're in far better shape. I think our only option to really have meaningful pension reform is to know what the Governor's last offer is going to be in the Spring, if it takes that long, so we can factor that in. Because without knowing that number, without it being negotiated now, we are really in a vacuum.

Thank you.

SENATOR SCUTARI: Okay.

That may be difficult, Senator Gormley, as you know, because these things continue to go -- and we may be operating--

SENATOR GORMLEY: Now, wait a second, wait a second. Not at all. Because if we don't get that number, this is an academic exercise. So let's everybody sit down now, everybody dealing in good faith, and get the number now. Or the Governor puts his last best offer on the table so that this person can do projections, so that we don't look like it was a Summer therapy session. They absolutely can get it.

Thank you.

SENATOR SCUTARI: I don't think that's what we're here for. We're here for--

SENATOR GORMLEY: I know we're not. That's why I'm not here for--

SENATOR SCUTARI: Because I don't think anybody here is here to waste their time and not come up with some meaningful suggestions.

As the Committee moves forward, we're going to take a few minutes now and figure out scheduling, between the members.

I want to thank all the members, and Chairwoman Pou, for all of their insightful comments, questions, and their real consideration for moving forward with meaningful change for all sides, in a fair and equitable fashion, to hopefully -- that everyone can understand our decisions. Not everyone will always be happy with those.

But I want to defer to the Chairwoman for any final remarks.

ASSEMBLYWOMAN POU: Thank you, Senator. I, too, want to echo the words of the Co-Chair, Scutari.

Let me just thank Mr. Beaver for having presented us with a very detailed report. Having also taken down very studious notes, to make sure that the amount of information -- that the reports that are being requested by the members of the Committee-- Again, I want to echo the comments of my Co-Chair, that it be submitted to the Co-Chairs in order for us to then distribute to the balance of the members.

I'd like to thank the members, as well, for such incredible interest and dialogue that has actually gone on today. As we move forward, and with many of the other committees, and as we rotate the Co-Chairs of these hearings, I know that all of us are going to want to listen carefully, learn as much as we can. Because there is so much out there that, still, we do not know, that needs to be provided to us so that we can really come up with some meaningful, meaningful reform.

Thank you so very much, Mr. Scutari.

And I'd like to also thank the members of the public who are here today for your attention and for your presence, as well.

Thank you so very much.

SENATOR SCUTARI: Okay, we're adjourned for now.

(MEETING CONCLUDED)