

May 15, 2023

SENATE BILL NO. 3090

To the Senate:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Senate Bill No. 3090 with my recommendations for reconsideration.

This bill would provide an annual retirement benefit of 50 percent of final compensation after 20 or more years of service to all members of the Police and Firemen's Retirement System ("PFRS"), regardless of enrollment date and regardless of age at retirement ("20 and out benefit"). A comprehensive PFRS reform bill enacted in 2000 included a provision extending the 20 and out benefit to members enrolled in the PFRS as of January 18, 2000. Under the plain language of that law, members enrolled in the PFRS after that date are ineligible for the 20 and out benefit.

More than a decade after the enactment of the 2000 law, stakeholders took the position, based on legislative intent not expressed in the text of the law, that the 20 and out benefit should be available to all members of the PFRS regardless of their enrollment date. In light of the confusion caused by the misreading of the 2000 law, I signed Senate Bill No. 1017 (First Reprint) in 2021 to create a limited, two-year window for current members of the PFRS to retire and receive the 20 and out benefit. The two-year window served the dual purpose of providing the 20 and out benefit to PFRS members who may have relied on the incorrect, but prevalent, interpretation at the time of their hiring, and giving affected parties the ability to study the impact of this benefit on PFRS members, employers, and the system as a whole.

While the two-year period provided some valuable insight into the impact that the 20 and out benefit could have on the PFRS in the short term, I am concerned that it is still too early to

ascertain the long-term impacts that this benefit will have on the system. New Jersey's overall pension system is still suffering from decades of underfunding that preceded my time in office. There is no doubt that my Administration has significantly improved this situation, as my proposed budget for Fiscal Year 2024 includes the third consecutive full payment into our State pension funds. The proposed contribution, including contributions from the State lottery, totals approximately \$7.09 billion, which would bring the combined pension contributions during my Administration to over \$32 billion, more than two and a half times the total amount contributed by the previous six governors combined. These commitments are paying off, as demonstrated by the seven credit rating upgrades New Jersey has received in the past 14 months. However, staying the course and continuing the positive trajectory of the State's financial health is my Administration's highest priority, and there remains much work to be done to better protect the stability of the State's pension funds, the expectations of its members, and the financial interests of the taxpayers of this State.

The stakeholders advocating on behalf of the bill contend that the 20 and out benefit will eventually result in financial savings to the State and local governments because PFRS members that retire early do not receive retiree health benefits and forgo salary and pension enhancements available upon attaining 25 years of service. However, the bulk of the savings projected to be attained through the 20 and out benefit are expected to materialize following the first five years of a member's retirement. Simply put, two years is not enough time to fully understand the impact that the 20 and out benefit will have on the PFRS. I am further concerned that aligning this trial period with the unprecedented

Coronavirus disease 2019 (COVID-19) emergency lessened the utility of any information collected during this period, as the pandemic created significant anomalies in retirement rates. In light of these concerns, I am returning Senate Bill No. 3090 and recommending that the trial period be extended for an additional three years to permit further evaluation of this benefit's impact on the State's finances, the PFRS, and its members over a five-year period.

At the conclusion of the 20 and out benefit trial period, if the Board of Trustees of the PFRS finds that the benefit does not result in increased employer contributions or impact the long-term viability of the PFRS, the Board can then permanently institute a 20 and out benefit without the need for additional legislation. Legislation enacted in 2018, commonly known as Senate Bill No. 5 (Third Reprint) ("S-5"), vested in the Board certain functions, powers, and duties relating to the management of the PFRS and the investment and reinvestment of money in the retirement system. S-5 clearly provides that the Board has the discretionary authority to modify the age at which a member may be eligible for service or special retirement, subject to certain statutory safeguards. S-5 recognizes that the PFRS members and their employers who sit on the Board are in the best position to make an informed decision regarding the viability of a permanent 20 and out benefit, and permits the Board to adopt such a benefit if the Board finds doing so is in the best interest of its members, their employers, and the system as a whole. I have full confidence that the Board would make such a decision responsibly, based on the facts and data that are developed during the five-year trial period.

Therefore, I herewith return Senate Bill No. 3090 and recommend that it be amended as follows:

- Page 2, Section 1, Line 41: Delete "or on or after"
- Page 2, Section 1, Lines 42-43: Delete "P.L. , c. (pending before the Legislature as this bill)" and insert "P.L.2021, c.52 and who is a member on that effective date"
- Page 2, Section 1, Line 43: Delete "that" and insert "the"
- Page 2, Section 1, Line 43: After "date" insert "of P.L.2021, c.52 but no later than the first day of the 61st month following that effective date"

[seal]

Respectfully,

/s/ Philip D. Murphy

Governor

Attest:

/s/ Parimal Garg

Chief Counsel to the Governor