



*N.J.*  
REPORT OF THE <sup>ADVISORY</sup> COMMISSION  
ON STATE LAW ENFORCEMENT  
PENSIONS

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April 29, 1953

Mr. Walter T. Margetts, Jr.  
State Treasurer  
State House  
Trenton, N. J.

Dear Mr. Margetts:

I hereby present to you the report of the Advisory Commission appointed by you in September 1952; in it are incorporated the recommendations with regard to pension coverage for State Law Enforcement Officers. This report represents a considerable amount of study and work by the members of the Advisory Commission and a number of persons who assisted the Commission.

In order to evaluate properly the present situation with regard to pension coverage for State Law Enforcement Officers, actuarial analyses were made of the State Police Retirement and Benevolent Fund and the Prison Officers' Pension Fund. These studies revealed that the two Funds have deficits of \$16,110,000 and \$4,500,000, respectively; and recognizing the importance of this data, the Commission included in this report the results of a fairly detailed examination of the two Pension Funds. In addition, a study was made of the pension coverage applicable to other State Law Enforcement Officers.

You will note that the Commission recommends the establishment of a new State Law Enforcement Officers' Pension Fund. This Fund would enroll all future State Law Enforcement Officers and such of the present officers who would choose to join. I feel that the benefits of the recommended pension fund would provide special protection for these officers within the limits of budgetary resources. No solution, however, is contained in this report for the problems raised by the existence of the deficits referred to above. It should be recognized that these deficits will in a comparatively few years present a threat to the pensioners receiving benefits from the two funds concerned. This is a very real problem which will have to be resolved.

I should like to give special thanks for the assistance given the Commission by Mr. W. Harold Bittel, Chief Actuary of the State, who attended all Commission Meetings, and Mr. Harry W. Jones, Vice-President of the Mutual Benefit Life Insurance Company, for the valuations made of the State Police Retirement and Benevolent Fund.

The real unsung hero of the whole proceedings was your own Mr. Steven E. Schanes, Administrative Secretary of the Bureau of Public Employees' Pensions, who served as Secretary to the Commission. His knowledge, and his willingness to use it, made him the guiding spirit of all meetings; to him we all owe very special thanks.

May I assure you that I enjoyed working with the Commission, and that I learned a great deal in helping develop the report. I believe that, as a result of this work, I am a more sympathetic citizen towards our public officials who are constantly wrestling with problems much more difficult than the ones tackled by our Commission.

Very sincerely yours,

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Anthony deFlorio, Chairman  
Advisory Commission on Pensions for  
State Law Enforcement Officers

AdeF/ms

THE ADVISORY COMMISSION  
ON STATE LAW ENFORCEMENT PENSIONS

Anthony deFlorio, Chairman

James W. McGrew

Senator David Yound, 3rd

John A. Mitchell

Assemblyman J. J. Junda, Jr.

Harry G. Reynolds

Frederick C. Craig

O. W. Van Cleaf

Charles A. Eaton

Robert M. Walter

Kenneth W. Metzler

George W. Zeigler

Advisors:

W. Harold Bittel

Steven E. Schanes, Secretary

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REPORT OF THE ADVISORY COMMISSION ON  
STATE LAW ENFORCEMENT PENSIONS

I. Introduction:

The Advisory Commission on State Law Enforcement Pensions was created in September, 1952 by State Treasurer Walter T. Margetts, Jr. as a result of the concern shown by many interested groups with regard to the adequacy of pension protection afforded state employees engaged in specially hazardous employment. Originally the group consisted of four public representatives, two legislators, and one representative of each of these State services:

Alcoholic Beverage Control Agents  
Motor Vehicle Inspectors  
Prison Officers  
State Police

Shortly after its inception, the Commission agreed to include a representative of the Fish and Game Wardens and an additional public representative. The twelve-member body was assisted by Mr. W. Harold Bittel, Chief Actuary of the State, Mr. Steven E. Schanes, Administrative Secretary of the State Bureau of Public Employees' Pensions. Mr. David G. Stone, consulting actuary, was engaged to make a valuation of the various proposals submitted to the Commission. Professor Robert M. Walter, a member of the Commission, made a special study of the Prison Officers Pension Fund, which is incorporated in this report. In addition, a separate actuarial valuation was made of the State Police Retirement and Benevolent Fund by personnel of the Mutual Benefit Life Insurance Company under the direction of Mr. Harry W. Jones, Vice President.

The inclusion of the above five state employee groups does not mean that the Commission was concerned solely with pension protection for these groups as opposed to other State employees engaged in hazardous police work. Proper coverage for all such employees was considered. However, it was felt that the groups represented were the largest numerically and could present the viewpoints of all such employees effectively. At the same time the size of the Commission was not made unwieldy.

An examination of rates charged by insurance companies revealed that the hazardous nature of the employment of the above groups is reflected, by and large, in higher than normal rates for life insurance and certain types of disability insurance. These rates are not the highest charged, indicating that there are many types of employment considered to be more hazardous by insurance companies. However, the Commission felt that the rate schedules did point out the need for some degree of special

pension coverage for State law enforcement officers which was not provided by the State Employees' Retirement System. This sound system is designed primarily for the needs of clerical and laboring employees in generally non-hazardous occupations.

The first meeting of the Advisory Commission to Study State Law Enforcement Pensions was held on October 7, 1952. As a result of initial discussions, the following statement of principles and purposes was drafted:

WHEREAS, It is generally agreed that law enforcement officers are engaged in a hazardous employment that requires that such officers be accorded special retirement and pension coverage; and

WHEREAS, Special retirement and pension coverage for law enforcement officers is in the public interest since superannuated law enforcement officers are unable to protect adequately the public; and

WHEREAS, Public pension systems should be established on an actuarially sound basis in order to reduce the cost to the taxpayers while affording maximum security to employees;

BE IT RESOLVED:

.....

1. The Commission shall study the duties and responsibilities of all law enforcement officers employed by the State Government of New Jersey for the purpose of determining which of such officers require special retirement coverage.

2. The Commission shall study all existing pension and retirement systems established for the benefit of law enforcement officers employed by the State Government of New Jersey in order to determine if such pension and retirement systems are actuarially sound and if the provisions of such pension and retirement systems are consistent with sound public policy.

## II. Sub Committee Reports

In order to facilitate its work, the Commission was divided into three sub committees; one to study the present State Police Retirement and Benevolent Fund; the second, the present Prison Officers Pension Fund; the third, present pension coverage for other State law enforcement officers.

## A. Report on the State Police Retirement and Benevolent Fund

### 1. Provisions of the State Police Pension Law

The existing plan for retiring members of the New Jersey State Police is covered by sections 53:5-1 to 53:5-7, inclusive, of the Revised Statutes. In these seven sections the entire structure of benefits, contributions, and administration of the fund are spelled out. The official name of the fund thus established is the State Police Retirement and Benevolent Fund, but, for purposes of brevity, it will be referred to in this report as the State Police Pension Fund.

The benefits available to members of the State Police under the provisions of the aforementioned law are:

Service Retirement: Any member of the State Police may retire upon attaining age 50 after a minimum of twenty years of service. Members who have attained age 55 and have a minimum of twenty-five years of service are compelled to retire. The benefit payable is legally defined as three-fourths of final salary, but not to exceed one-half of final salary plus allowances. Whatever the case may have been when the fund was first established, the present structure of salary ranges plus allowances effectively prevents the three-quarters salary provision from having any real meaning. The retirement allowance may, therefore, for all practical purposes, be considered as 50% of final average salary plus allowances.

There are two special provisions relating to service retirement. One of these provides that "Any applicant for retirement who has reached the age of forty years and who has not less than fifteen years of credited service with the state, and who is suspended, dropped or discharged from his department, shall be eligible for retirement at one-third of his said salary and allowance, but the provisions of this section shall not apply to any member suspended or discharged for any cause or causes which would bar him from reappointment."

The other special service retirement provision waives the mandatory retirement age of 55 (with 25 years' service) in the case of any member who shall have been awarded the Congressional Medal of Honor, the Distinguished Service Cross or the Navy Cross. Such individuals are not compelled to retire until they have attained age seventy.



Disability Retirement - Service Connected: In the event of permanent disability received in the performance of duty, a member is eligible for a pension of not less than one-quarter nor more than three-quarters of his salary plus allowance at the time the disability occurs. No period of service is required as qualification for this benefit. The precise amount of the pension, within the broad limits of the statute, is set by the State House Commission.

Disability Retirement - Ordinary: Any member with ten or more years' service is eligible for retirement in the event of permanent disability where such disability is unconnected with his duties as a member of the State Police. Benefit is not less than one-quarter nor more than three-quarters of final salary plus maintenance with the precise amount set by the State House Commission.

Service Connected Death: In the event that a member dies in the performance of duty or dies from injuries received in the performance of duties, a pension is payable to his widow until her remarriage or death, or in the event there is no widow, to any children under age 16 or to the member's dependent parents, if any. The pension payable to the widow amounts to one-half final salary plus allowance. The pension payable to minor children is as follows:

One child - \$360. per year  
 Two children - \$300 per year each  
 Three or more children - 50% of final salary plus allowance equally divided among children.

The pensions payable to minor children terminate when the child reaches age 16.

Non-Service Connected Death: After ten years' service an active member is covered for death in any manner, regardless of whether such death was in the course of or as a result of employment or not. Those eligible to receive the pension and the amount thereof is the same as outlined above for service-connected deaths.

Death After Retirement: In the event that a member who has been retired under any of the foregoing provisions dies and leaves a widow to whom he was married at least five years prior to his retirement, there is a pension payable to the widow equal to one-half of the salary (not allowance) that the member was receiving at the time of his retirement. The pension is payable until the remarriage or death of the widow.

Withdrawal: Any member who has two or more years of service as a "contributing member" may, upon leaving the service, withdraw his contributions with interest at 2%.

### Financial Provisions:

The State Police Pension Fund is financed by funds received from two sources:

1. A contribution of 4% of salary (not allowance) by each member, and
2. One-eighth of the two per cent tax on the premiums of out-of-state insurance companies writing insurance against automobile liability, property damage, collision, fire and theft.

✓ The practice of supporting a pension fund by means of a dedicated tax leaves much to be desired both from the standpoint of the taxpayer and the employee. From the taxpayer's point of view, the use of a dedicated tax removes the accounting of the fund from the regular section of the State Budget and tends to under-state the actual cost of maintaining the State Police. There is also no assurance that the tax will not produce much more money than is actually needed to support the benefit structure of the pension fund. From the employee's point of view there is no assurance that the dedicated tax will produce enough money to support the benefits promised by law.

No records on the operations of the fund are available for the period 1925-31, but, beginning with the fiscal year 1931-32, the State Accounting Office has published the current cash picture of the fund. While such a system of accounting falls far short of what is needed to accurately assess the true financial and actuarial position of the fund, it does provide useful information on the income from year to year.

Expressed as a percentage of payroll, the dedicated tax has produced income to the fund that ranged from a high of 22.8% in 1932-33 to a low 4.3% in 1944-45. Over the entire period from July 1, 1931 to June 30, 1952 (twenty-one years) the dedicated tax payments to the State Police Pension Fund have amounted to \$1,680,451 or 9.2% of total salaries paid during that period. By coincidence, the 1951-52 income from this source also amounted to exactly 9.2% of salaries.

Insofar as the members' contributions are concerned, it should be noted that these are set on the basis of salary only while pension benefits are set on the basis of salary plus allowances. Thus "salary" for pension purposes is one thing, while "salary" for contribution purposes is another thing entirely.

Since a State Trooper receives a salary beginning at \$3,480 and increases by regular increments to \$4,380, plus an allowance of \$840 per year, he begins by contributing at the rate of 3.22% of salary plus allowance when he is at the bottom of the salary scale and is paying 3.86% of salary plus allowance when he reaches the top of the salary scale. Commissioned officers pay at varying rates all of which are in the vicinity of 3.5% of salary plus allowance.

On the basis of total salary and allowances as of December 1952, the average rate of contribution by members amounted to 3.3%.

#### Administration of the Pension Fund:

Full control and management of the State Police Pension Fund is vested in the State House Commission which consists of the Governor, the State Treasurer, the State Comptroller, the Chairman of the Senate Appropriations Committee, and the Chairman of the Assembly Appropriations Committee.

✓ There are no representatives of the employee on what amounts to the Board of Trustees of the Pension Fund.

✓ The State House Commission can determine the eligibility for pensions and, in the case of disability, can fix the amount of pension within broad limits. No other pension fund maintained by the State of New Jersey is so completely dominated by persons in active political life; no other pension fund is managed by a board so completely devoid of both impartial public members and employee representatives; few, if any, other pension funds are governed by boards with the broad discretionary powers which the State House Commission exercises over the State Police Pension Fund.

✓ In view of the fact that the reputation and perhaps the continued existence of the State Police depends so much on keeping politics out of the service, the particular method now used to administer this fund is most inappropriate. This is not to imply that the elective and appointive officials who now serve or who have served in the past on the State House Commission have introduced politics into the administration of the pension fund. There is no evidence that this has happened, but there is no guarantee that it will not happen.

#### 2. Results of the Valuation\*

✓ The actuarial valuation of the State Police Pension Fund made by the Mutual Benefit Life Insurance Company indicates that the fund is, as of this moment, actuarially bankrupt! The present value of the benefits now payable and of the prospective benefits payable in the future amount to \$22,577,000 while the present value of prospective contributions from active members plus the present value of probable

\*(See Appendix for the Actuary's report)

income from the dedicated tax plus the assets in hand (approximately \$2,225,000 as of June 30, 1952) total only \$6,467,000. There is thus a deficit of \$16,110,000.✓

The value of the benefits now payable to those actually retired and their beneficiaries amounts to \$3,526,000. The entire assets of the State Police Pension Fund fall short by \$1,301,000 of guaranteeing the payment of these benefits.✓

To support these liabilities there is available only the future contributions of the active members and the income from the dedicated tax. The present value of members' future contributions is \$1,212,000, and the present value of the estimated future income from the dedicated tax properly allocable to these members is \$3,030,000. The fund, therefore, has \$4,242,000 of foreseeable assets from present active members as compared to \$19,048,000 in potential liabilities on behalf of these members. There is no legal obligation on the State to make up any part of the resultant deficiency from general taxation.✓

#### The Future of the Fund:

Despite the gloomy picture painted by the actuaries who valued the State Police Pension Fund, there will undoubtedly be many members of the State Police who will find it difficult to believe that the situation is as serious as it appears to be. These members will point to the fact that the assets of the fund have been growing steadily over a long period of time. This is an illusion. The total assets in hand have been growing but the true assets include not only those in hand but also the present value of future contributions from members and from the dedicated tax.✓ The true liabilities include not only the current payments for pensions but the present value of liabilities that will become payable in the future.✓ The mere fact that a pension fund has substantial assets in hand at any given moment is no indication that the fund is sound.✓

The annual demands on the Fund have been growing rapidly in recent years, having more than doubled since 1949.✓ Of the 42 service retirants presently drawing benefits from the fund, 17 have been added since January 1, 1951. More important, these 17 new retirants receive almost half of all pensions payable on account of service retirement indicating that they were probably in the higher pay grades.

A continued upward trend of annual current benefit requirements is clearly indicated by the following distribution of active members by attained age group as of December 1952:

<u>Attained Age</u>	<u>Number</u>
22-24	56
25-29	171
30-34	87
35-39	88
40-44	73
45-49	112
50-54	24
55-59	3
60-64	1
	<hr/>
	615

Although there are a large number of members in the younger age groups, not less than 22.8% are now age 45 or older and the great bulk of these men may be expected to retire in the next ten years.

Within the next ten years it would not be surprising if the number of persons drawing benefits from the State Police Pension Fund climbed to somewhere between 200 and 250 and the total annual disbursements from the fund to between \$500,000 and \$750,000 per year. At that point it is almost a foregone conclusion that the assets in hand of the fund will begin to diminish and the contributions of the younger members of the fund will be used to pay the pensions of those who have retired.

Meanwhile, it may be expected that the State Police force will continue to grow in size. Since the end of World War II, the State Police has increased rapidly from an average strength of 295 in 1945 to an average strength of 472 in 1951. Currently the active strength is 615 and the authorized strength is 655, which figure will probably be reached by next June. If this trend continues a State Police force numbering close to 1,000 officers and men can be expected within the next ten years.

All too often in the past, those charged with pension fund administration have looked merely at the increased current income which additional members bring in through their contributions. Actually, each new addition to the membership of a pension fund should be viewed as a potential liability. In the present condition of the State Police Pension Fund, the addition of new members to the force only serves to increase the actuarial deficiency which now exists in the fund.

## B.-REPORT ON THE PRISON OFFICERS PENSION FUND

The present contributory pension plan for officers of New Jersey's penal institutions was put into effect during the summer of 1941. In this report a brief attempt will be made (a) to set forth the provisions of the plan for contributions and benefits, (b) to describe something of the way the plan is functioning at present, and (c) to appraise the financial condition of the plan from an actuarial point of view.

(a) The provisions of the plan for contributions and benefits are adequately covered for purposes of this report in a study published a few years ago by the Rutgers Bureau of Government Research. The following material is reproduced from that study.

### Officers and Employees of State Penal Institutions (Authorized in 1941)

I. Eligibility- All officers in State penal institutions and other persons having custody of inmates of such institutions are eligible. Membership is not compulsory.

#### II. Source of Funds-

Member Contribution - 4% of salary

Employer Contribution - 5% of salary, plus obligation to make up deficits.

Other Sources - All money donated, all money deducted from salaries for lost time, one-half of all rewards earned by members.

III. Service Retirement - A member shall be retired, upon application, at age 55, after 20 years of aggregate service. Pension is one-half final salary

IV. Disability Retirement- A member shall be retired in case of total disability incurred in performance of duty. He may be retired in case of disability incurred from some cause not connected with performance of duty. Pension is one-half final salary.

V. Survivors' Benefits- A pension of one-half the member's final salary up to a maximum of \$1,000 per year shall be paid to the principal survivor in the following cases:

- (a) Death in performance of duty.
- (b) Death from any cause after 20 years of service.
- (c) Death from any cause after retirement if the member continued to contribute to the pension fund after being retired.

Survivors' benefits of a pension of  $2\frac{1}{2}\%$  of final salary, times the years of service, up to a maximum of 50% shall be paid in the case of a member who dies after at least 5 years of service from a cause not connected with performance of duty.

Eligible survivors are the widow, children under age 16, and the dependent parents. No child may receive more than \$25. per month.

VI. Withdrawal - A member who leaves service after one year shall receive refund of his contributions. Any war veteran may withdraw from this fund within two years after joining. No interest is permitted on withdrawals.

VII. Administration- This system is administered by a 5-man commission which is under the supervision of the Department of the Treasury and consists of the State Treasurer, three prison officers elected by the members for 2-year terms, and one citizen elected by the rest of the commission for one-year term.

Investments are under the supervision of the Division of Investment of the Department of the Treasury.

(b) At present the plan is functioning with 363 active members and 83 others who are drawing benefits. Of that 83, fifth-eight are retired members and the other twenty-five are beneficiaries (all female). The age distribution of the members and beneficiaries is as follows:

<u>AGE</u>	<u>ACTIVE MEMBERS</u>	<u>RETIRED MEMBERS</u>	<u>BENEFICIARIES</u>
13			1
20-25	9		1
26-30	29		1
31-35	41		
36-40	45		1
41-45	44	1	2
46-50	49	5	4
51-55	67	22	3
56-60	32	14	3
61-65	15	9	3
66-70	6	7	1
age unknown	26		5
TOTAL	363	58	25

A good idea of what has happened during the last few years can be obtained by comparing the above totals with the corresponding figures as of September 30, 1946, which were

316	11	10
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If it is readily seen that the proportion of persons receiving benefits has risen sharply as opposed to the number of active members. At the same time, at least 120 active members are eligible or will be eligible for retirement within the next five years, thus placing a tremendous burden on the assets of the fund.



During the first several years of operation when there were relatively few pensions being paid, it was possible to accumulate something of a balance in the fund, but it appears that the period of accumulation is now about at an end. The following is a brief summary of current revenues and expenditures.

For Fiscal year Ending June 30th

	1952 (Actual)	1953 (Estimated)	1954 (Estimated)
Revenues	115,876.65	136,800.00	148,700.00
Expenditures	119,453.13	131,000.00	158,000.00
Balance, June 30th	487,171.17	492,971.17	483,671.17

✓ An increasingly rapid depletion of the balance is clearly indicated in the future, and a highly unsatisfactory situation is seen to exist, in which the contributions of younger members are used to pay the pensions of older members, leaving the younger members to hope that the money to pay their pensions will be appropriated somehow when the time comes. Such lack of actuarial soundness is never tolerated in a properly conceived pension plan.

(c) In making an appraisal of the financial condition of the plan, attention should first be directed to the fact that, as the plan was set up, a large deficit was created immediately when the provisions for contributions and benefits went into effect in 1941. The Act creating the Prison Officers Pension Fund contained no provision for funding benefits earned prior to July, 1941, in spite of the fact that liability for such benefits was definitely assumed. Upon transferring from the State Employees' Retirement System to this new Fund in 1941, 187 prison officers were permitted to withdraw and pocket \$189,252.55 from the sound State Fund. Then, too, the rates of contributions payable by prison officers and by the State were set at arbitrary figures which have no relation to the benefits granted under the Act. These rates have been found in subsequent studies to be grossly inadequate. Hence the deficit, which was, apparently, somewhere in the neighborhood of 3 or 3½ million dollars initially, has been growing steadily year by year.

Actuarial studies of the Fund were made in 1944 by a consulting actuary and in 1946 by Messrs. Vermeulen and Bittel. In September of 1944 the deficit was over \$3,000,000. and, with the aid of estimates of its rate of growth which were made in the 1946 study, it may be inferred that the present deficit is at least \$4,500,000., and it is now growing at the rate of over \$100,000. a year. ✓

Any serious attempt to put this fund on an actuarially sound basis would involve the setting up of provisions for the amortization of this deficit or "accrued liability" over a period of, perhaps, 20 years as well as a considerable upward revision of the present rates of contribution. While proper rates as estimated



in the 1946 study vary greatly according to age at entry into the plan, it can be safely said that, on the average, the present combined rates for the prison officers and the State need to be more than doubled in order to bring them in line with the benefits granted.✓

In this report no attempt has been made to give a detailed valuation of the present assets and liabilities of the Fund. In view of the scope of the 1946 calculation, it seemed unnecessary to have a new valuation made now. The personnel records of the prison officers and employees have, however, been put in shape on I. B. M. punch cards so that any future valuations needed can be readily made.

### C. REPORT ON OTHER STATE LAW ENFORCEMENT OFFICERS

The only pension coverage available to other State law enforcement officers, besides the veterans retirement act, is the State Employees' Retirement System. Approximately fifty per cent of the groups studied are enrolled in this System, as indicated below:

#### MEMBERSHIP IN THE STATE EMPLOYEES RETIREMENT SYSTEM

	<u>YES</u>	<u>NO</u>
Alcoholic Beverage Control Agents	28	65
Motor Vehicle Inspectors	68	53
Fish and Game Wardens	<u>34</u>	<u>7</u>
TOTAL	130	125

While the State Employees' Retirement System is not specifically designed to service law enforcement officers, it does provide substantial benefits in the event of service connected death or disability, as well as a liberal retirement allowance at age 60 for long-term service employees. Therefore, the high percentage of employees not covered by this System, particularly among the alcoholic beverage control agents, concerned the Commission greatly. This lack of coverage becomes increasingly important when taken into consideration with the ages of the employees, given in the following table:

<u>Age</u>	<u>No. of Employees</u>			<u>Totals</u>
	<u>Alcoholic Bev. Control Agents</u>	<u>Fish and Game Wardens</u>	<u>Motor Vehicle Inspectors</u>	
20-25	1	0	1	2
26-30	10	6	10	26
31-35	6	6	6	18
36-40	5	3	8	16
41-45	9	3	9	21
46-50	12	6	21	39
51-55	13	7	19	39
56-60	18	6	40	64
61-65	8	4	5	17
66-70	7	0	1	8
70-70	<u>4</u>	<u>0</u>	<u>1</u>	<u>5</u>
TOTAL	93	41	121	255

### III. The Commission's Approach

The Commission found that two basic problems existed with regard to providing adequate pension protection for the various branches of State law enforcement officers:

1. What should be done where only inadequate coverage was available, such as in the case of the alcoholic beverage agents, motor vehicle inspectors, and fish and game wardens?

2. What should be done where liberal, unsound pension funds existed: the Prison Officers Pension Fund, and the State Police Retirement and Benevolent Fund?

The first question was answered by the recommendation that a new, actuarially sound State Law Enforcement Officers Pension Fund be established. Membership in this fund would be optional with existing employees, but mandatory for all employees permanently appointed after the pension fund came into existence. The details of benefits, etc., are described in the next section.

The second question was answered in two parts. By placing all new prison officers and State troopers under the proposed actuarially sound fund, the membership in the two existing funds would be "frozen". Thus, the liabilities of these funds would not be increased as a result of additional members.

However, the question of the existing deficits, totalling approximately \$20,610,000, was not completely resolved. The annual cost of amortizing these deficits over a period of thirty years would be approximately \$1,051,500. This would be in addition to the present governmental contributions to the Prison Officers and State Police Pension Funds, which in 1952-53 amounted to \$278,000.

The Commission noted that the large deficits constituted a danger to the members of the funds. However, agreement could not be reached as to the proper method of disposing of the deficit. The employee representatives opposed the complete elimination of the funds and the placing of the present members under the proposed new sound pension fund. The public representatives felt that State finances could not support an increased annual appropriation of \$1,051,500 to the present funds. It was therefore agreed that no recommendation for the handling of the deficits should be made at the present time, but rather that the existence of these deficits should merely be reported. As noted in the subcommittee reports, these deficits will lead to financial difficulties in the near future.

#### IV. PROPOSED STATE LAW ENFORCEMENT OFFICERS PENSION FUND

- A. Application to State Law Enforcement Officers permanently appointed after the effective date of the enabling legislation

1. Eligibility

All new and future State Law Enforcement Officers permanently appointed after the effective date of the enabling legislation are automatically members of this System.

2. Retirement for Age

Retirement is permissive at age 55, and mandatory at age 60, except for members in administrative positions, who may serve to age 65. Administrative positions shall not number more than 15% of total positions with a given agency. Retirement allowance will be equal to 2% of average salary for each of the first twenty-five years served, and 1% of average salary for any additional service. Average salary shall be the average of the last five years of member's employment. Options will be available so that a member may take a reduced pension in order that, in the event of his death, his widow may continue to receive a pension.

3. Retirement for Service-Connected Disability

Member will receive pension equal to 50% of his pay at time of disability. Member's contribution will be refunded.

4. Benefit for Service-Connected Death

Widow will receive a pension equal to 50% of member's pay at time of accident. Member's contribution will be refunded.

5. Retirement for Ordinary (Non-Service-Connected) Disability

With less than 5 years' service, return of contributions. With 5 or more years' service, member will receive a pension of at least 25% of pay at time of disability. If twice the member's contribution would produce a greater pension than 25% of pay, he will receive the greater amount.

## 6. Insurance Program

### a.- Death While Employed

The death benefit for ordinary (non-service-connected) death will be \$5,000. Member's contributions will be refunded.

### b.- Death after Age Retirement

The death benefit will be \$2,000.

### c.- Death After Service-Connected Disability Retirement

The death benefit will be \$5,000.

### d.- Death After Ordinary (Non-Service-Connected) Disability Retirement

The death benefit will be \$2,000.

### e.- The member may apply for increased insurance, for which he will pay the full cost. This insurance will be term insurance, ceasing at age 60, or at prior termination of employment. At termination of service before age 60, the cash value will be paid to the member.

### f.- The amounts payable under the insurance program may be taken in lump sum or as annuities.

## 7. Termination of Service

After two years of membership the member's contributions will be refunded.

## 8. Contributions

The member will share in one-half the cost of the benefits for age retirement and ordinary disability retirement. The rates will depend upon the member's age of entrance into service. The member will pay the full cost of the optional insurance. The State will share one-half of the cost of the benefit for age retirement and ordinary disability retirement, and will pay the full cost of all other benefits except the optional insurance.

- B. Application to Present Employees of the Division of Motor Vehicles, Division of Alcoholic Beverage Control, Fish and Game Wardens, Prison Officers, and State Police

Membership in the State Law Enforcement Officers Pension Fund will be available to present State Law Enforcement Officers on the following basis:

1. Present Members of the State Employees' Retirement System, Prison Officers Pension Fund, and State Police Retirement and Benevolent Fund.

Members of these funds may transfer their membership to the new pension fund, and receive credit toward retirement benefits as though they had been members from the date of entrance into service. Their contributions would be transferred to the new fund along with the State's pension reserve. The rates of contribution would be fixed at age of entrance into service.

2. Present Employees Without Pension Coverage Except for the Veterans' Retirement Act

These employees could join the new fund, and receive free credit toward service retirement at the rate of 1% of average salary for each year of employment. An additional 1% of credit for each year of prior service could be purchased by the member. This additional purchase could be made over a period of years. The rates of contribution would be fixed at age of entrance into service. Future service would be credited at the rate of 2% per year up to a total of 25 years of service, and 1% per year thereafter. Veterans could elect to remain solely under the Veterans' Retirement Act without joining the new fund.

3. Compulsory Retirement

Retirement shall be compulsory upon the attainment of age 60 and 25 years of service, except with permission of department head.

4. All Other Benefits of Proposed Pension Fund

All other benefits of the proposed fund, listed in Section III (A) shall apply to present employees who join the new fund.

## V. COSTS OF THE COMMISSION'S RECOMMENDATIONS

### A. Cost to the Public

The initial cost of starting the recommended sound pension fund for State law enforcement officers with 255 Motor Vehicle Inspectors, Alcoholic Beverage Control Agents, and Fish and Game Wardens receiving prior credit is estimated at \$165,633. annually. This assumes that all 255 eligible employees will join the fund, which is undoubtedly an over-estimate, since a large number of these employees will elect to retire under the Veterans' Retirement Act. Of course, additional costs will be involved for each new employee joining the fund as a condition of employment. The above cost figure consists of the following items:

Prior Service Deficit as of 12/52

Pension Plan	\$1,680,546*
Insurance Plan	<u>216,786</u>
Total	\$1,897,332

Annual Cost of Amortizing over 30 Years	\$94,867
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Annual Future Cost to State on Payroll  
as of 12/52:

Pension Plan	\$ 83,252
Insurance Plan	<u>17,514</u>

Total	<u>100,766</u>
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Total Annual Cost to State	\$195,633
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Less: Estimated Contribution to S.E.R.S. for 125 members	<u>30,000</u>
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Net Annual Increase Required	\$165,633
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\*This allows for full prior service retirement credit only to those transferring funds from other systems or contributing towards prior service. All others will receive one-half prior service credit towards retirement.

## B. Cost to Employees

In the course of evaluating the various proposals presented to the Advisory Commission, the Consulting Actuary developed a schedule of contribution rates. While the final Commission recommendations are not directly related to these rates, it is indicated that the actual rates applicable to the proposed program would not differ greatly from the following:

### EMPLOYEE CONTRIBUTION RATES

<u>Age of Entrance into Service</u>	<u>% of Pay Contributed to Pension Program</u>	<u>Annual Premium Per \$1000 of Optional Insurance</u>
20	4.71	\$6.49
25	5.49	7.43
30	6.22	8.59
35	6.94	10.03
40	7.73	11.83
45	8.76	14.10

Note: The age for "% of Pay Contributed to Pension Program" is the age at the time the member was hired. The age for "Premium Per \$1,000 of Optional Insurance" is the age at the time the member begins paying for the optional insurance.

## C. Initial Appropriation

Since it is impossible to determine in advance what proportion of the present employees will join the proposed fund, the Commission recommends that an initial State appropriation of \$50,000. be made for the support of the fund until the actual financial needs are determined. In addition, it is recommended that there be a State appropriation of \$10,000. for the administration of the pension fund during its first year of operation.



## VI. SUPPLEMENTARY RECOMMENDATIONS CONCERNING THE FINANCING OF STATE POLICE PENSIONS

At the present time, 62 State Troopers, just about 10% of the total active membership of the State Police Retirement and Benevolent Fund, are engaged full-time in patrolling the New Jersey Turnpike. The cost of this service, insofar as the salary and allowances of the troopers are concerned, is paid for by the Turnpike Authority which is a governmental corporation operating independently of the regular agencies of government and which is forbidden both by law and by a decision of the State Supreme Court from receiving either direct or indirect appropriations from the State.

The Turnpike Authority has already drawn plans for a large expansion program and is considering still other plans. The State Legislature has created a similar body, the New Jersey Highway Authority, and empowered it to build the 180-mile Garden State Parkway. If the practice of using State Troopers to patrol these Authority operated roads is continued, it is not unlikely that the day will soon come when some 200 troopers, comprising 20% to 25% of the total active membership of the Pension Fund, will be so engaged.

Consequently, the Commission recommends that these Authorities be required to contribute to the State Police Retirement and Benevolent Fund or any pension fund of which State Police are members in direct proportion as the salaries of those troopers engaged in patrolling Authority operated roads bears to the total salary for pension purposes of the State Police as a whole. In determining what salaries are allocable to the various authorities, a method for allocating a portion of the salary of the Superintendent and other top executive officers should be developed so that the proper proportion of such salaries may be charged to the various authorities.

<u>Appendix 1.</u> <u>Comparative</u> <u>Provisions</u>	<u>Proposed State</u> <u>Officers'</u> <u>Fund</u>	<u>State Police</u> <u>Retirement and</u> <u>Benevolent Fund</u>	<u>Prison Officers'</u> <u>Pension</u> <u>Fund</u>	<u>State Employees'</u> <u>Retirement</u> <u>System</u>
1.Membership	A.B.C. Agents, Motor Vehicle Inspectors, Fish and Game Wardens, and New Prison Officers, and New State Troopers appointed after July 1, 1953	All present State Troopers	All officers in State penal insti- tutions and other persons having custody of inmates.	State employees not in other pension funds.
2. Retirement for Age	Permissive at 55; compulsory at 60, administrative officers--age 65.	Permissive at 50 with 20 years of service; compul- sory at 55 with 25 years of service	Member shall be retired upon ap- plication at age 55 with 20 years of service	Permissive at 60; compulsory at 70, except with approv- al of administra- tive officer. Per- missive also after 25 years of service, with sharply re- duced retirement allowance.
3.Service Re- tirement Allow- ance	2% of average salary for each of first 25 yrs. for which con- tributions are made; 1% per yr. thereafter.	50% of final salary plus allowance	50% of final salary	1/60 or 1/70 of final average salary times number of years of serv- ice, depending upon class of membership
4.Service Connected Dis- ability	Annual pension of 50% of final salary plus return of contributions	1/4 to 3/4 of final salary plus allowance	50% of final salary	Pension of 2/3 of final salary plus annuity based on accumulated deduc- tions.

(continued)

<u>Comparative Provisions</u>	<u>Proposed State Officers' Fund</u>	<u>State Police Retirement and Benevolent Fund</u>	<u>Prison Officers' Pension Fund</u>	<u>State Employees' Retirement System</u>
5. Non Service Connected Disability	After 5 years of service, a pension of at least 25% of final salary, or twice the value of the member's contributions, whichever is greater.	1/4 to 3/4 of final salary plus allowance	After 20 years of service 50% of final salary	After 10 years of service an annual allowance of 9/10 of the sum of 1/60 or 1/70 of final average salary times the number of years of service, depending upon the class of membership.
6. Service Connected Death	Annual pension to widow of 50% of final salary plus return of members' contributions	Annual pension to widow of 50% of final salary plus allowance	Pension to widow of 50% of final salary up to \$1000. annually	Annual pension to widow of 50% of final average salary plus member's accumulated deductions.
7. Non Service Connected Death	Benefit of \$5000. plus return of contributions	After 10 years of service, pension of 50% of final salary plus allowance to widow.	After 5 years of service, pension of 2 1/2% of final salary times years of service to a maximum of 50% of final salary	Less than 20 years of service, return of member's contributions. Over 20 years service: annuity based on accumulated deductions plus pension equal to annuity, up to maximum of \$420. per year.

(continued)

Comparative Provisions	Proposed State Officers' Fund	State Police Retirement and Benevolent Fund	Prison Officers' Pension Fund	State Employees' Retirement System
8. Death After Age Retirement	Benefit of \$2000.	Pension of 50% of final salary to widow	If pensioner contributes to fund, continuation of service retirement allowance to widow up to maximum of \$1000. annually	Available only under options (12)
9. Death After Service Connected Disability Retirement	Benefit of \$5000.	Pension of 50% of final salary to widow.	If pensioner contributes to fund, continuation of service retirement allowance to widow up to maximum of \$1000. annually.	Available only under options (12)
10. Additional Death Benefit Coverage	Purchase Optional with Member	Group Insurance paid by members.	If pensioner contributes to fund, death after non-service connected disability retirement, continuation of service retirement allowance to widow up to maximum of \$1000. annually	Not available
11. Termination of Service	After 2 years, contributions returned	After 2 years contributions returned with 2% interest	After 1 year of service, contributions returned	Return of contributions plus 2% interest; veterans receive 4% interest.

(continued) Comparative <u>Provisions</u>	<u>Proposed State Officers' Fund</u>	<u>State Police Retirement and Benevolent Fund</u>	<u>Prison Officers' Pension Fund</u>	<u>State Employees' Retirement System</u>
12. Options Upon Retirement	Options will be available so that a member may take a reduced retirement allowance in order that in the event of his death, his widow may continue to receive a pension.	Not available	Not available	Options are available so that a member may take a reduced retirement allowance in order that in the event of his death, his widow may continue to receive a pension
13. Costs	Member pays one-half the cost of the benefits for age retirement and non service connected disability retirement. Rates to be determined by member's age of entrance into service. Member pays full cost of any additional death benefit coverage purchased. The State pays one-half the cost of the benefit for age retirement, ordinary disability retirement, and the full cost of all other benefits, except additional death benefit coverage.	A contribution of 4% of salary (not allowance) by each member, and one-eighth of the two per cent tax on the premiums of out-of-state insurance companies writing insurance against automobile liability, property damage, collision, fire and theft.	Member contributes 4% of salary. State contributes 5% of salary plus any deficits. Other sources: all money deducted from salaries for lost time, one-half of all rewards earned by member, all money donated.	Member pays one-half the cost of all benefits except in the case of accidental death or accidental disability or prior service. Rates are determined by members age of entrance into service. State pays the full cost of the accidental death and accidental disability benefits and prior service credits, and 1/2 the cost of all other benefits.

Appendix 2.

THE MUTUAL BENEFIT LIFE INSURANCE COMPANY  
Post Office Box 359  
NEWARK 1, NEW JERSEY

Harry W. Jones  
Vice President

December 17, 1952

Mr. James W. McGrew,  
Assistant Research Director,  
New Jersey State Chamber of Commerce,  
605 Broad Street,  
Newark 2, New Jersey.

Dear Mr. McGrew:

In accordance with your request, we have completed a valuation of the New Jersey State Police Pension Fund. In connection therewith we have used, so far as possible, certain tables showing mortality, disability and withdrawal rates which have been used on other occasions in the valuation of police and firemen's funds. These tables may not be ideally suited to this particular Fund, but this could not be determined without extensive statistical analysis which could not be developed because of the speed with which the job had to be done. The only data of a statistical nature which we derived from the material you sent us on the existing membership was in connection with the salary scale. This element is essential in order for us to make a reasonable forecast of what the pension level may actually be at retirement for any present member.

In the course of our work we found it necessary to employ certain approximations and estimates where the available tables would not exactly meet the situation, but these were all handled quite carefully with full regard for proper actuarial treatment.

We are satisfied that none of the foregoing reservations would serve to challenge the broad implications of our results and that substantially the same result would be disclosed by a much more exacting job requiring considerably more time.

The manner of handling the contributions of the State is worthy of some explanation. These contributions consist of one-eighth of the 2% tax on premiums collected by out-of-state automobile insurance companies. During the fiscal year ending June 30, 1952 these amounted to something over \$200,000, or 9.2% of payroll. We are not prepared to estimate the course of this figure in the future, but it should be observed that as time goes on only a portion of this annual contribution will be related to the present membership of the Fund. The balance will be related to members who will have joined the Fund at some future date. The present membership will have a diminishing interest in the total State contribution as the present membership declines. Proportionately, that interest should diminish at the same rate as that which will occur in the aggregate contributions of the present members in the years to come. Having observed that the average percentage of payroll over the last five years represented by tax revenues is almost exactly 10%, we elected to assume that the present value of these revenues in the future would be 2-1/2 times the present value of future contributions by the members. Since the latter were valued with due regard for the probable

future periods over which contributions would be made, we believe that the proportionate value assigned to the tax revenue makes proper provision for that part of the future tax revenues which will have to be dedicated to future members.

We find the Fund to be approximately 29% solvent. In this connection it might also be observed that the existing liability for benefits now payable to retired and disabled members and the beneficiaries of the deceased members totals \$2,874,000, and, with all contributions having ceased in these cases, the present assets in the Fund are sufficient to meet only 75% of this segment of the liability.

A detailed statement of assets and liabilities is attached to this letter.

Yours very truly,

/s/ HARRY W. JONES

Vice President

Enc.

New Jersey State Police Pension Fund

Assets

Present Assets (June 30, 1952)	\$ 2,225,000
Prospective Contributions: Members	1,212,000
Taxes	<u>3,030,000</u>
Total Assets	\$ 6,467,000
Deficiency	<u>16,110,000</u>
Total	\$22,577,000

Liabilities

Present Value of Benefits now payable:	
Service Pensions to Members	\$ 1,556,000
Disability Pensions to Members:	
Accidental	357,000
Ordinary	95,000
Reversions to Beneficiaries	866,000
Present Value of prospective benefits to present members:	
Service Pensions	12,252,000
Accidental Disability Pensions	180,000
Ordinary Disability Pensions	2,134,000
Present Value of Reversions to Beneficiaries of:	
Active Members on:	
Accidental Death in Service	544,000
Ordinary Death in Service	1,112,000
Ordinary Death after Retirement	2,626,000
Disabled Pensioners	114,000
Service Pensioners	541,000
Return of Contributions on Withdrawal	<u>200,000</u>
Total Liabilities	\$22,577,000

December 17, 1952