Governor Christie Continues Unprecedented Support To The Pension System

Tuesday, February 28, 2017 Tags: Budget and Spending

Pension Contribution By Governor Christie Is The Largest In State History And Brings Governor Christie's Total Contribution to More Than Two And A Half Times The Total Contributions Made By All Governors Combined Since 1995

> *"I am proposing to contribute the revenues from the Lottery to eligible pension plans. The contribution would have the immediate effect of reducing the unfunded liability of the pension system… This would also significantly reduce the amount we have to pay into the pension system every year out of the general fund."*
>
> *- Governor Chris Christie, New Jersey State Budget Address, February 28, 2017*

Governor Chris Christie today announced a proposal to transfer the Lottery Enterprise to eligible pension plans for a period of 30 years. This is a 30-year commitment of a steady funding stream and would have the immediate effect of reducing the unfunded liability of the pension system. This transfer would elevate the pension system's funded ratio, an improvement that would lower the required annual pension payment over the course of this 30-year period. Lowered payments would free up General Fund monies, allowing the state to replace the revenue the lottery currently provides. In addition, all programs currently funded by lottery revenues would be supported by the General Fund moving forward, while the Pension System would receive a dedicated funding stream that vastly improves its solvency.

This transaction will go a long way towards solving the State's greatest financial obstacle—pension and health benefit funding—by delivering further reforms and a dramatic increase in funding for the pension system. It would do so in a way that is beneficial to the State budget, that would please bond investors and credit rating agencies, and that would ensure the retirement assets of New Jersey's public employees.

In recent years, the cost of pensions, public employee health benefits and debt service have accounted for the bulk of budget growth. The Governor's Fiscal Year 2018 budget includes a **$2.5 billion** contribution to the State's defined benefit pension funds, $647 million more than the Fiscal Year 2017 amount, and five-tenths of the Actuarially Determined Contribution (ADC). ***This will be the largest defined benefit contribution in New Jersey history.*** This will bring total contributions by the Christie Administration to **$8.8 billion**, which is more than two and a half times the total contributions made by all governors combined during the 16-year period from Fiscal Year 1995 through Fiscal Year 2010. Those governors' combined pension payments totaled $3.4 billion over 16 years, compared to Governor Christie's one-year contribution of $2.5 billion in Fiscal Year 2018

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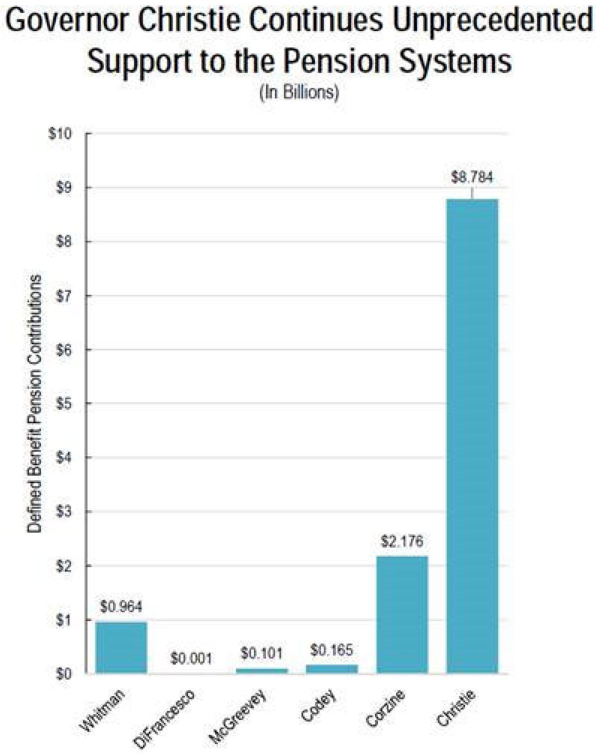


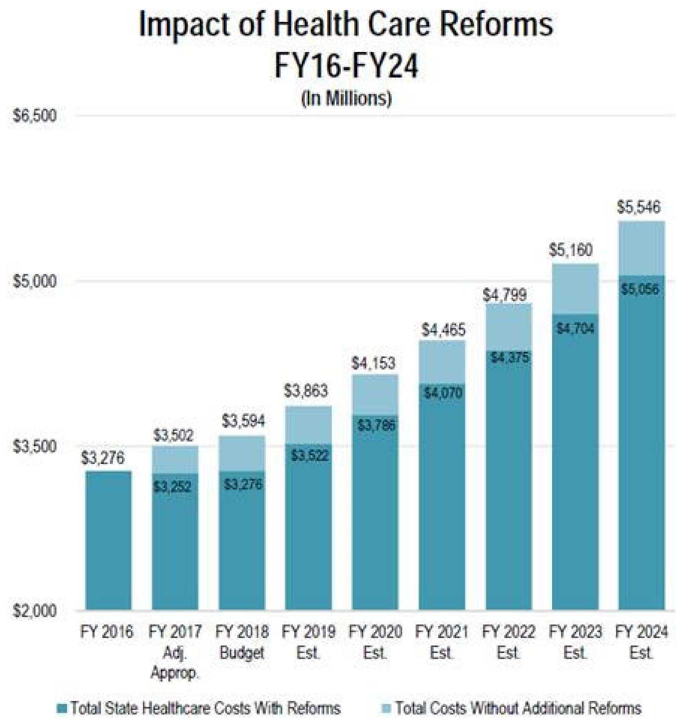
Despite the significant bipartisan reforms of 2010 and 2011 and management improvements implemented by the Christie Administration, the rising costs of defined benefit pensions and health benefits continue to burden State government and constrain the ability to be responsive to other priorities. Governor Christie has controlled the cost of government, shrinking the State workforce and footprint, and held discretionary spending more than $2 billion below spending 10 years ago.

- The increased defined benefit pension contribution accounts for almost 72 percent of the total increase in State appropriations in fiscal year 2018.
- Increased funding for pensions and employee health benefits together comprise approximately 75 percent of the year-over -year increase, but without reform, the increase would represent 78 percent.
- Increased pension, employee health benefits and debt service costs together account for 82 percent of the growth over the fiscal year 2017 State budget.
- Health benefits and post-retirement medical benefits for current and retired State employees, local teacher retirees and the enhanced benefits for local government retirees represent 9.2 percent of the Governor's Fiscal Year 2018 State budget, compared to 6.4 percent in Fiscal Year 2008. Without reforms, they would represent 10 percent of the budget.

Without additional reform, pension and health benefits liabilities will continue to grow in the coming fiscal years. Absent common-sense changes to lower state health benefits insurance premiums, the State could be subject to the federal "Cadillac Tax" on benefit-rich plans beginning in 2020. This tax alone may add billions of dollars to the future cost of providing health care benefits.

Public Employee Health Care Reforms

The Fiscal Year 2018 budget assumes that a combination of reasonable new reforms will save $125 million in public employee and retiree health care costs to offset anticipated growth. These reforms would additionally save local governments, school districts - and the property taxpayers who fund them - approximately $125 million. These reforms also would provide cost controls as the State moves into plan year 2018 that would control increases in State and local employee premium sharing.



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