

I. Executive Summary

Pursuant to Assembly Concurrent Resolution No. 3, the Joint Legislative Committee on Public Employee Benefits Reform was charged with identifying proposals that will terminate abuses of the pension systems and control the cost of providing public employee retirement, health care and other benefits.

The Joint Legislative Committee on Public Employee Benefits Reform finds:

- New Jersey's retirement systems have an \$18 billion unfunded liability.
- The four main contributors to this unfunded liability are:
 - State and local government employer pension "holidays" totaling \$8 billion over seven years;
 - Negative investment returns resulting in a \$20 billion loss;
 - Costly pension benefit enhancements and early retirement incentive programs; and
 - Continuous increases in both active and retiree enrollment.
- State Health Benefits Program expenditures total \$3.6 billion annually.
 - These expenditures have risen by 150% over the past five years and will double by 2010;
 - State and local governments will soon have to recognize the long-term implications of these employee health care benefits on their financial statements, similar to the way pension obligations are presented;
 - The State's health care benefits unfunded liability is estimated to exceed \$20 billion.
- Detrimently altering the retirement benefits of active members of the retirement systems who have accrued at least five years of service credit, or of retired members, would be unconstitutional as an impairment of contract based on a legal opinion provided by the nonpartisan Office of Legislative Services and similar legal advice prepared by the Office of the Attorney General for the State Treasurer.

- For the benefit of taxpayers, government employees and retirees, and public employers, measures both to ensure that the retirement systems are financially sound and to control the rise in health care benefit costs must be implemented.
- Pension abuses and gimmicks must be terminated through a series of legislative and regulatory measures.
- Implementation of State Health Benefits Program cost-savings strategies will help curtail rising expenses.
- Pension and health care benefits are a significant and increasingly expensive obligation that State and local governments have to their current and former employees. These taxpayer financed benefits contribute to the cost of local property taxes borne by State residents and, therefore, short-term and long-term solutions are necessary.
- The Joint Committee's recommendations identify long term savings through wide-ranging reforms while maintaining the essential components of a competitive system of pensions and benefits, for the workers who deserve it.
- The reforms recommended by this Joint Committee are overdue. Whether some of these reforms are achieved through collective bargaining rather than through legislation is less significant than ensuring that they are, in fact, achieved. Collective bargaining notwithstanding, it is clear that the Legislature needs to attach permanency to a number of the recommended reforms.

The Joint Legislative Committee on Public Employee Benefits Reform recommends:

Pension Benefits

- *Recommendation 1:* Limit defined benefit pension plans to full-time career employees and establish new defined contribution program for all new part-time employees, elected officials and full-time appointed officials
- *Recommendation 2:* Increase retirement age to 62
- *Recommendation 3:* Reduce benefit formula for new members from N/55 to N/60
- *Recommendation 4:* Cap pensionable salary, which is now unlimited, to Social Security wage contribution limit - \$97,500 for 2007

- *Recommendation 5:* Base “high salary” pension benefit calculations for new members on higher number of years
- *Recommendation 6:* Designate one job for one pension
- *Recommendation 7:* Repeal non-forfeitable right to pension benefits after five years of pension service
- *Recommendation 8:* Limit pension enrollment eligibility to \$5,000 minimum salary
- *Recommendation 9:* Allow all non-vested employees to opt into defined contribution program
- *Recommendation 10:* Exclude all professional service contractors from membership in PERS
- *Recommendation 11:* Require Division of Pensions and Benefits to investigate compensation increases that exceed reasonably anticipated annual compensation increases
- *Recommendation 12:* Close Prosecutors Part of PERS
- *Recommendation 13:* Close Workers Compensation Judges Part of PERS
- *Recommendation 14:* Repeal special retirement benefit enhancement in PFRS
- *Recommendation 15:* Prohibit non-uniform public employees from enrolling in PFRS
- *Recommendation 16:* Require forfeiture of retirement system benefits for public officials convicted of crimes involving abuse of office
- *Recommendation 17:* Replace accidental and ordinary disability benefits with private disability insurance coverage
- *Recommendation 18:* Continue moratorium on benefit enhancements in State-administered retirement systems
- *Recommendation 19:* Continue moratorium on early retirement incentives, except in cases of regionalization and consolidation initiatives resulting in cost savings

- *Recommendation 20:* Eliminate use of excess valuation assets to reduce employers' normal contributions in State-administered retirement systems
- *Recommendation 21:* Use consistent and generally accepted actuarial standards for pension valuations

Health Benefits

- *Recommendation 22:* Require all active public employees to pay some portion of cost of health care insurance premiums
- *Recommendation 23:* Require future retirees to pay some portion of cost of health care insurance premiums
- *Recommendation 24:* Provide flexibility to local government employers participating in SHBP to negotiate different levels of cost sharing and plan selection with their current employees
- *Recommendation 25:* Require that SHBP benefits changes negotiated by State be applied to local governments
- *Recommendation 26:* Limit SHBP participation to those who work at least 35 hours per week
- *Recommendation 27:* Allow local employers participating in SHBP to provide monetary incentives to public employees who elect to waive SHBP coverage
- *Recommendation 28:* Prohibit out-of-State purchased pension service from being creditable towards post-retirement health care benefits
- *Recommendation 29:* Prohibit multiple health care coverage in SHBP
- *Recommendation 30:* Offer SHBP basic health care plan at low cost to public employees and determine cost to employee of SHBP plan according to sliding scale with regard to employee's compensation
- *Recommendation 31:* Mandate use of mail order for maintenance prescriptions and encourage generic drug utilization for SHBP participants
- *Recommendation 32:* Require SHBP bulk purchasing of pharmaceuticals
- *Recommendation 33:* Study use of pharmacy benefits manager
- *Recommendation 34:* Require Division of Pensions and Benefits screening of SHBP for ineligible participants

- *Recommendation 35:* Establish disease and chronic care management program for all SHBP participants

Other Benefits

- *Recommendation 36:* Limit sick leave compensation payable upon retirement to \$15,000 for all local government and board of education employees
- *Recommendation 37:* Limit accumulation of vacation leave to one year for all local government and board of education employees
- *Recommendation 38:* Eliminate State's sick leave injury program
- *Recommendation 39:* Increase interest rate charged for pension loans in State-administered retirement systems
- *Recommendation 40:* Review number of State holidays for public employees
- *Recommendation 41:* Ban dual elective office holding

Senator Gormley and Assemblyman O'Toole wish to note that, while they agree with the thrust of this report, they would like to place on the record their firmly held opinion that effective reform requires stronger recommendations in several areas. They would like to acknowledge that the co-chairs have graciously agreed to include their reservations in the relevant parts of this report.