

March 31, 2010

Re: Pension Reforms Expanded FAQ's

Dear Mayor:

We have been receiving numerous inquires on the pension reforms taking effect on May 21, 2010. Senate President Sweeney, a co-sponsor of the bills, has provided us with the following [expanded FAQ](#) to address questions regarding the bills.

Pension Reform Package FAQ

- **QUESTION: What is the current status of New Jersey's state employee benefits systems?**

ANSWER: A recent report by the Pew Center for the States shows that New Jersey's pension system has the third highest unfunded liability in the country. Our unfunded liability currently stands at more than \$45 billion. New Jersey's unfunded liability for retiree health costs is the highest in the nation, ahead of even California.

ANSWER. Pew placed our pension system in the category of "serious concern," among the worst ranking eight states in the nation. Stateline.org reports that at least 16 other states are considering similar changes to their pension and health benefits systems.

- **QUESTION: How will the changes in the pension system affect current employees?**

ANSWER: The changes to pension calculations in these bills are prospective – they only impact new employees. Current part time employees or employees receiving pension credit for multiple jobs are "grandfathered" in (unless they have a break in service).

ANSWER: The 1.5% contribution for health benefits will impact current government employees - but only after expiration of their current collective bargaining agreements. Most State employees are already paying this amount under their current contract.

- **QUESTION: Will employees of a town or school that uses a private health plan be required to pay the 1.5% toward health benefits? What about in retirement? Are current retirees affected?**

ANSWER: Regardless of how an employee receives health benefits (State plan or private insurance) they will be required to pay at least 1.5% toward that coverage.

ANSWER: Employees *hired after the effective date of the pension reform bills* would be required to contribute 1.5% of their pension toward health benefits in retirement. Current retirees would not be impacted by the bills.

- **QUESTION: How will the cap on sick leave payout and vacation carryover impact current police officers and firefighters?**

ANSWER: These caps are only for new employees hired after the enactment of the bills.

- **QUESTION: Is the new 1.5% health care contribution *in addition to* contributions required under current contracts?**

ANSWER: The 1.5% does not impact current employees until their current collective bargaining agreements (agreements in effect on the effective date of the new law) expire. Amounts paid under previous contracts are NOT added to the 1.5%.

ANSWER: The 1.5% is a minimum – state and local governments can negotiate with unions for a higher percentage to be paid, but such additional amounts must be agreed to in collective bargaining.

- **QUESTION: What if I'm a current employee who is not in a union and not subject to a collective bargaining agreement?**

ANSWER: For purposes of the 1.5%, you get treated as if you were in a union, and the 1.5% will not impact you until expiration of the current collective bargaining agreement (an agreement in effect on the effective date of the new law) with a union representing employees where you work. Also, if you have an individual contract, the legislation's requirements would not alter the terms of your contract.

- **QUESTION: Why is the 1.5% contribution necessary?**

ANSWER: According to the Center for American Progress, a progressive think tank in Washington DC, health care costs are expected to grow 71 percent over the next decade. The report estimates New Jersey's premiums per employee would increase to an average of \$17,862 by 2014 and \$24,119 by 2019.

ANSWER: The health care cost for State and local actives and retirees accounted for 8 percent or \$2.36 billion of the State Budget in FY 2010. Given the current financial crisis, the State budget does not have the flexibility it once had to take on the additional costs for employees and retirees' rising health care expenses.

The non-partisan Office of Legislative Services estimates that the 1.5% contribution will provide hundreds of millions of dollars in savings to municipalities and school districts each year.

- **QUESTION: What will happen to part time employees in the Pension System?**

ANSWER: Current part time employees are allowed to continue in the defined benefit pension system. They are "grandfathered in," unless they have a break in service.

ANSWER: New part time employees making more than \$5,000 a year or current part time employees that have a break in service will be moved to a defined contribution retirement system, similar to a 401(k).

- **QUESTION: What about the State and local authorities; will they be impacted by the bills?**

ANSWER: Employees at independent State or local authorities, boards, and commissions are impacted by these bills if they are members of the State Health Benefits program or one of the state pension systems.

- **QUESTION: If I have to go on maternity or disability leave, will I be forced under the new system?**

ANSWER: Under existing law, maternity and disability leave is not considered a break in service for school employees and employees in the state retirement systems. Without a break in service, current employees are “grandfathered in” and are not treated differently than other current employees.

- **QUESTION: Is there a Legislators Part of PERS?**

ANSWER: The Legislators Part of PERS was closed in 2007. All newly elected officials from that point on are in the 401k style, defined contribution retirement system.

- **QUESTION: Do legislators also have to pay 1.5 percent for their health care?**

ANSWER: Yes, legislators were included in this reform package. If they receive State Health Benefits coverage, they will have to pay 1.5 percent of salary for it.

- **QUESTION: What if my full-time position is changed to a part-time position?**

ANSWER For current members, you will remain in the pension system as long as you meet the salary requirement for enrollment. For individuals hired before 2007 you must earn \$1,500 or more and for individuals hired after 2007 you must earn \$7,500 or more per year.

We are awaiting additional guidance from the Division of Pension and Benefits and will share that with you as soon as it becomes available.

We recommend that you consult with your municipal attorney on how these laws will impact your town. For additional information please see our previous [Dear Mayor Letters](#). If you have any questions or need further information please contact Lori Buckelew at lbuckelew@njslom.com or 609-695-3481 x112.

Very truly yours,

William G. Dressel, Jr.
Executive Director