



Public Works Association of New Jersey

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March 24, 2010

Dear PWANJ Members,

As you are well aware the Governor signed the pension reform legislation on Monday, March 22, 2010. The bills are labeled in the Senate as S-2, S-3, S-4, & SCR-1 and in the Assembly as A-2459, A-2460, & A-2461. The PWANJ has attained a copy of a very detailed summary of the pension reform bills and what they mean to the public employees in the pension system. This summary was authored by Molly S. Marmion, Esq. of Knapp, Trimboli & Prusinowski, LLC.

Senate

On or about February 9, 2010, Senate President Sweeney and Senate Republican Leader Kean announced bipartisan legislation to complete the 2006 Joint Legislative Committee's reforms to the state's public employees pension and benefits system by the introduction of four bills to the Senate. The four bills, S-2, S-3, S-4 and SCR-1 seek to correct the pension system, which is estimated to be underfunded by \$46 billion this year. The following is a brief description of the four bills.

S-2:

- Limits enrollment to full-time employees. For local government, full-time is defined as 32 hours per week. Notably, any employee currently in the pension system who works less than 32 hours per week will continue in the system so long as they remain continuously employed.
- All new part-time employees will participate in the Defined Contribution Retirement Plan. The Defined Contribution Retirement Plan will require a minimum compensation level of \$5,000, an increase from the previous \$1,500 level.
- For all new employees in PERS, the pension calculations will change to the highest 5 years of compensation from the highest 3 years. PFRS will change to the highest 3 years compensation from the highest year.
- Any employee with less than 10 years in the system will have the choice to opt into the Defined Contribution Retirement Plan or opt out of the retirement system all together.
- The calculation for pension benefits returns to N/60 for all new employees in the PERS. The Veterans status remains unchanged.
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- For PFRS only, imposes the salary cap linked to the Social Security maximum contribution limit on future employees and repeals the benefit enhancement. The enhancement allows PFRS members to retire with 75% maximum compensation if the retirement fund reaches 104% funding level.
- Requires PERS employees to designate one job for one pension. The position with the highest compensation would be used. This provision does not effect current PERS employees with several jobs as long as they remain continually employed by the same multiple municipalities.
- For new hires, repeals the statutory non-forfeitable rights provision for all employees in State-administered retirement systems.
- Eliminates Prosecutors Part of PERS.

S-3:

- Requires all current local employees to pay at least 1.5% of their base salary towards health benefits after expiration of current union contract.
- Requires all newly hired local employees, when they retire, to pay at least 1.5% of their base pension toward health benefits.
- For future retirees, eliminates the waiver of the 1.5% for participating in the Wellness Program.
- Allows local governments the ability to negotiate a coverage plan offered by the State Health Benefits Commission through collective bargaining agreements.
- Requires all changes made with the State employees' health benefit coverage through negotiation be applied to local government employees covered by the State Health Benefits Program.
- Requires new local employees to work at least 25 hours per week to qualify for health benefits. A local employer could decide to impose a higher threshold of hours per week, but the proposed minimum is 25 hours.
- Limits the current financial incentive to waive State Health Benefits Plan coverage to 25% of the cost or \$5,000, whichever is less.
- Prohibits duplicate coverage under the State Health Benefits Program.

S-4:

- For new local government employees, limits sick leave payout upon retirement to \$15,000.
- Permits only one year's worth of vacation time carried over year to year for new local government employees.
- For PERS, replaces ordinary disability and accidental disability pension benefits with private disability insurance coverage.

Not surprisingly, the New Jersey Senate unanimously passed the bills on February 22, 2010.

SCR-1:

Moreover, a constitutional amendment to require the State to pay each year the full amount of their contribution obligation for each pension plan operated by the State was introduced in the Senate. This constitutional amendment is awaiting hearing in the Senate. Such an amendment must be passed by a vote of

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3/5 of each House (24 votes in the Senate and 48 votes in the Assembly). No action by the Governor is required. If passed, the proposed amendment is placed on the ballot in November for a public vote.

Assembly

Similar reform bills were introduced in the Assembly on February 25, 2010. These bills can be summarized as follows:

A 2459

- Limits sick leave payouts for all new local and school employees to \$15,000, just as it already is for State employees;
- Prohibits local government and school employees to carry over only one year of vacation time year-to-year; and
- Eliminates the ineffective sick leave injury program.

A-2460

- Requires all public employees to pay at least 1.5 percent of their salary toward health benefits after the expiration of a current contract;
- Requires all newly-hired employees to pay at least 1.5 percent of their base pension toward health benefits upon retirement;
- Requires that any changes negotiated by the State – such as higher co-pays – with its employees be applied to every government entity participating in State Health Benefits Programs;
- Prohibits multiple coverage in State Health Benefits Programs;
- Requires new state workers to work at least 35 hours per week to qualify for health benefits; and
- Requires new local and school employees to work at least 25 hours per week to qualify for health benefits.

A-2461

- Limits pension system enrollment to new full-time employees who work at least 35 hours per week for the State or 32 hours for local government and schools;
- Requires all workers with more than one public job to receive a pension for only one job, with only the highest-salaried position counting toward a pension;
- Allow new employees earning at least \$5,000 annually to enroll in a 401(k)-style plan;
- Allow employees with less than 10 years of service to switch from the pension plan to a 401(k)-style plan or to withdraw from the pension system;
- Change the equation used to calculate pensions for new employees by dividing the number of years worked by 60, rather than 55, thus reversing for new workers the 9 percent benefit enhancement negotiated in 2001;
- Base pensions for new public workers and for new teachers on their five highest salary years, rather than the highest three;
- Base pensions for new police officers and firefighters on the three highest salary years rather than the highest single year;

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- Impose a pensionable salary cap for new employees enrolled in the Police and Firemen's Retirement System and the State Police Retirement System. Salary earned under the cap – the base salary equivalent to the maximum wage contribution base for Social Security, or for 2010, \$106,800 – would be counted toward PFRS or SPRS membership. Salary over the cap could be included in a 401(k)-type program;
- Repeal 2003 legislation that allowed a police officer or firefighter to retire at any age with 25 years of service credit on a special retirement allowance of 70 percent of final compensation, if the retirement system reached a funded level of 104 percent; and
- Eliminate the non-forfeitable right to pension benefits after five years in the system for new employees.

Very truly yours,

Paul McCall

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PWANJ President