THE STATE OF NEW JERSEY

The plans:
New Jersey has three large state-administered pension systems, three smaller state-administered systems, and some locally-administered systems. The state also maintains one retiree health plan. This analysis focuses primarily on the three large state-administered systems – the New Jersey Public Employees' Retirement System (PERS), the New Jersey Teachers' Pension and Annuity Fund (TPAF), and the New Jersey Police and Firemen's Retirement System (PFRS) – which make up the vast majority of the active public pension membership in the state.

The impact of the crisis:
As a result of the economic crisis, the amount required to amortize the unfunded liabilities increased for all New Jersey plans. For PERS and TPAF, amortization payments increased from 4 to 8 percent, and from 8 to 12 percent of payroll, respectively. For PFRS, costs jumped from 10 to 16 percent of payroll. For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 5.6 percent to 8.5 percent.

The impact of pension plan reforms:
In the wake of the financial crisis, New Jersey made substantial changes to various aspects of its plans in order to reduce employer costs, limit employee benefits, and shore up funding. To mitigate the employer costs, employee contributions were increased, and the New Jersey legislature provided additional short-term relief to the employer by allowing for underpayment of the annual required contribution (ARC) until 2016. The benefit cut with the greatest impact on costs was removal of the cost-of-living adjustment (COLA) for all active employees, retirees, and new hires. In addition to eliminating the COLA, all three systems tightened the retirement eligibility and lengthened the average salary period for new hires. Reduced benefits and increased employee contributions caused the employer's projected contributions to the normal cost to decline substantially for all three large systems. PERS' contribution will decline from 6 percent today to 1 percent of payroll by 2046. TPAF will decline from 8 percent today to 2 percent of payroll by 2046, and PFRS will fall from 19 percent to 10 percent of pay.

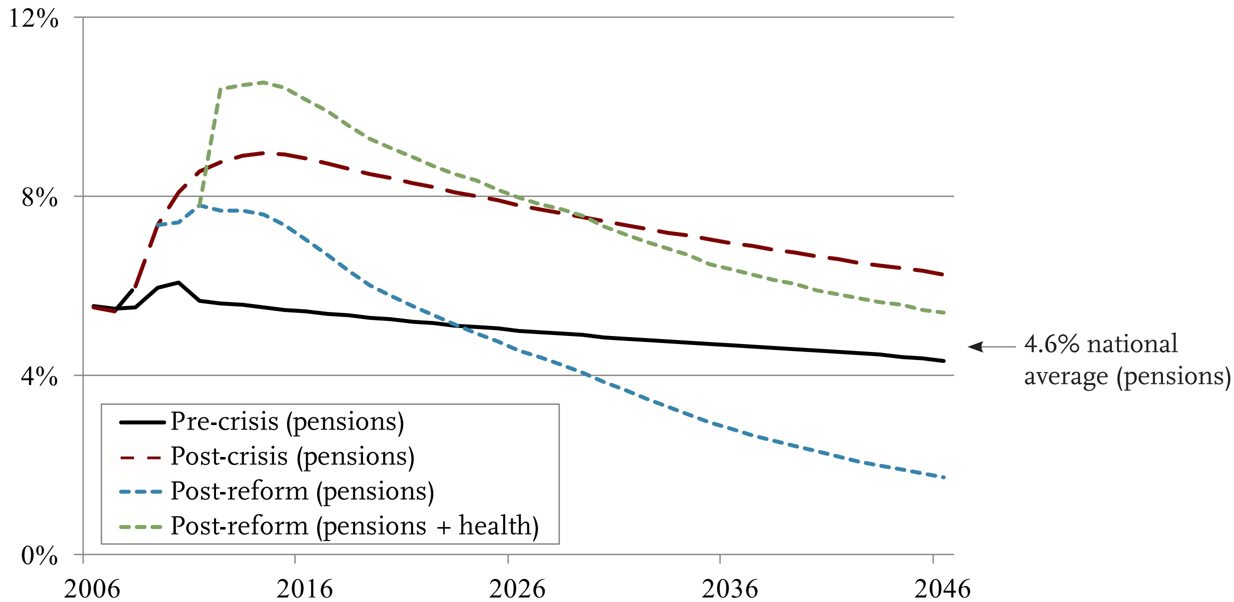
The systems also introduced measures to pay down their unfunded liabilities sooner. They implemented a declining amortization period that is 30 years initially and decreases gradually to 20 years by 2021. In addition to this shorter amortization period, the systems shifted from a level-percent-of-payroll amortization method to a level-dollar method, which will hasten the decrease in the unfunded liabilities by requiring greater amortization payments up front. If the systems adhere to the new funding schedule and assumed returns materialize, the share of state and local budgets devoted to pensions is projected to drop from 8.5 percent during the crisis to 1.8 percent in 2046, at which point all employees will be covered by the reduced benefits.

Total state costs:
New Jersey government also provides retiree health benefits, which amounted to about 1.7 percent of state and local budgets prior to the crisis, but are projected to grow to 3.7 percent by 2046. When retiree health and pension costs are combined, New Jersey's total retirement benefit costs as a percent of state and local budgets equaled 7.3 percent prior to the crisis, increased to 10.9 percent during the crisis, and are projected to drop to 5.5 percent in 2046 after pension reforms.

PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

NEW JERSEY: TOTAL PENSION AND RETIREE HEALTH COSTS

Figure 1. Employer Pension and Retiree Health Costs as Percent of Budget: Pre-Crisis, Post-Crisis, and Post-Reform



Note: Budget = general own source revenues of all New Jersey state/local governments. Retiree health costs assumed pay-as-you-go.

Table 1. Employer Pension and Retiree Health Costs as Percent of Budget, by Plan

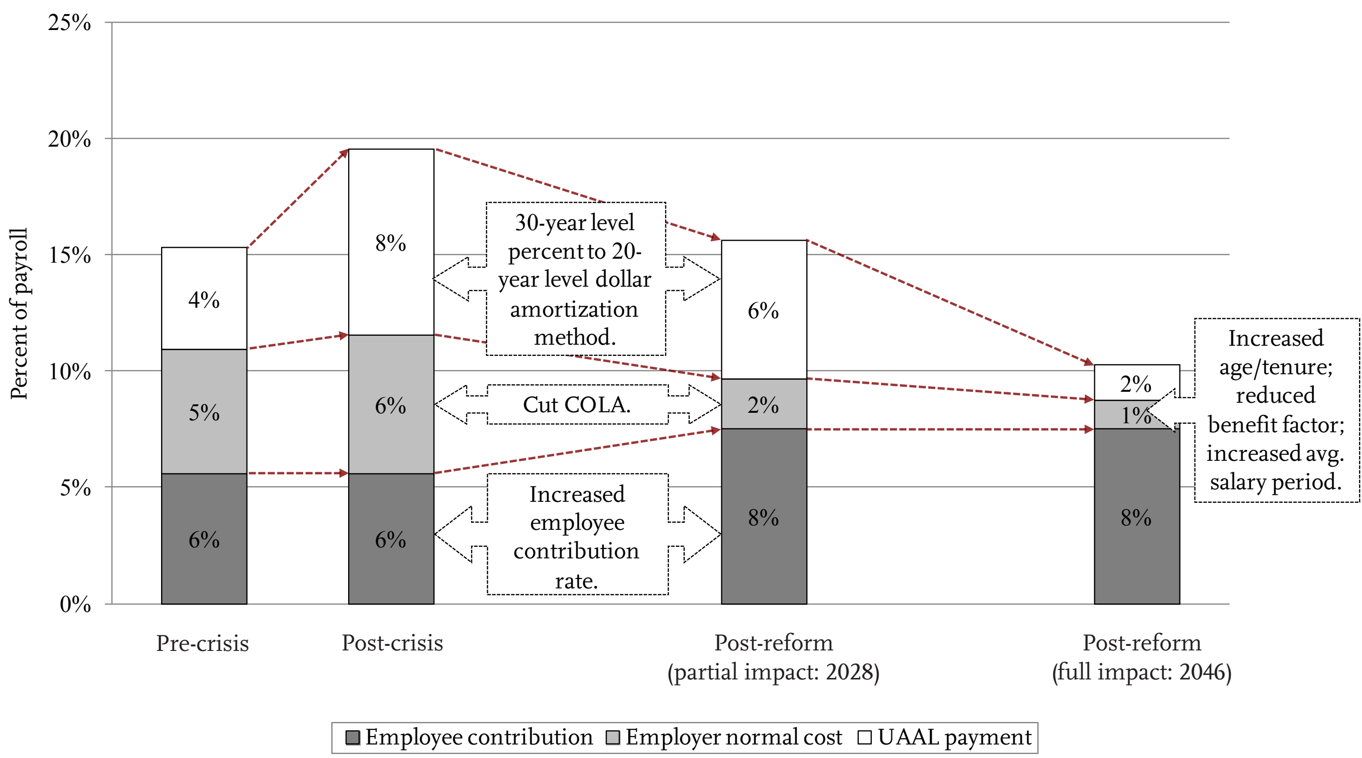
Plan	Pre-crisis	Post-crisis	Post-reform 2028	Post-reform 2046
Total pensions	5.6 %	8.5 %	4.2 %	1.8 %
New Jersey PERS	1.7	2.8	1.3	0.5
New Jersey TPAS	2.2	3.5	1.7	0.6
New Jersey PFRS	1.6	2.2	1.2	0.7
Other pension plans[a]	0.1	0.0	0.0	0.0
Total retiree health	1.7	2.4	3.5	3.7
New Jersey SHBP	1.7	2.4	3.5	3.7
Total	7.3	10.9	7.7	5.5

[a] Includes a total of four small state-administered plans covering police, prison-workers, and judges, and locally-administered plans not participating in the state system.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems.*

NEW JERSEY PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

FIGURE 2. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

☐ Social Security coverage
☑ Defined benefit
☐ Defined contribution/hybrid

Funding method and history

☑ Set by statute
☑ Actuarially determined

State excused from paying ARC in 2009, but must pay 1/7th of ARC in 2010, 2/7th in 2011, until full ARC is paid in 2017. Localities deferred paying 50 percent of ARCs in 2009 but now required to pay in full.

Plan design changes

☑ Cut COLA: all employees
☑ Increased employee contribution: all employees
☑ Increased age/tenure eligibility: new hires only
☑ Increased average salary period: new hires only
☑ Reduced benefit factor: new hires only
☐ None

TABLE 2. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

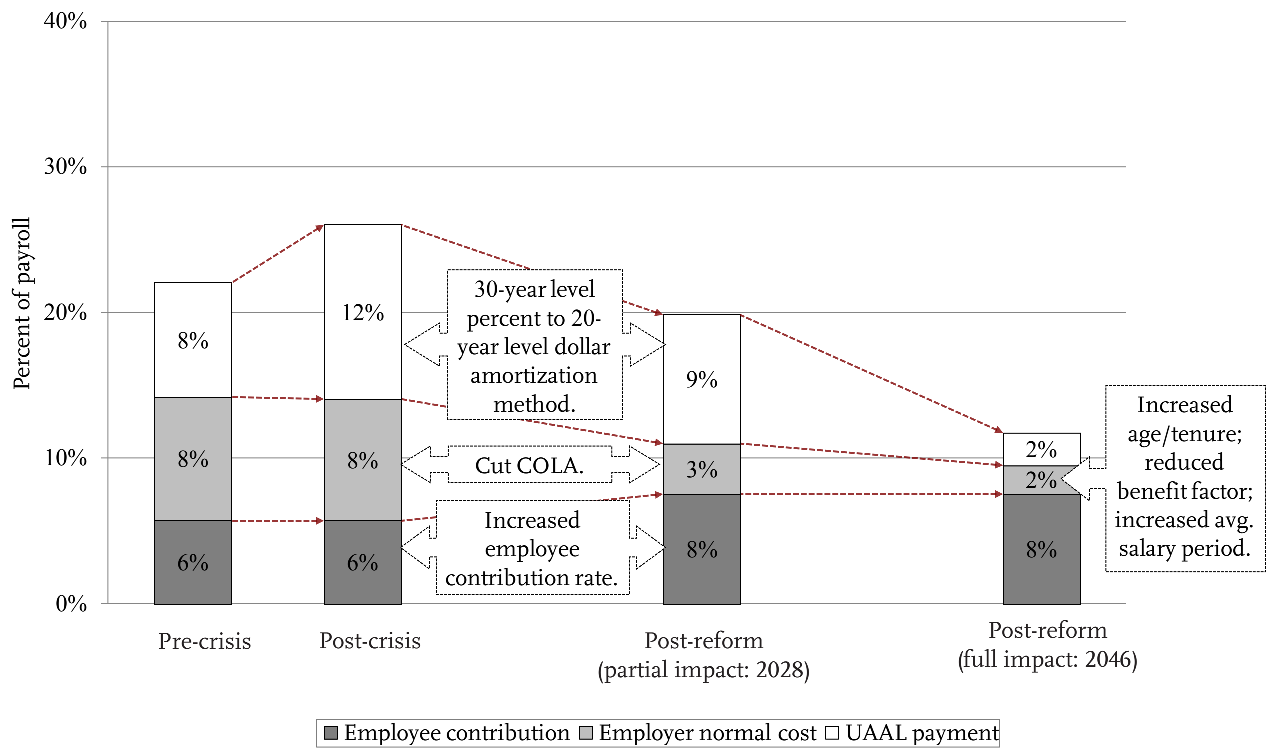
Item	Pre-crisis	Post-crisis	Post-reform 2028	Post-reform 2046
Plan finances				
Funded ratio	76.0 %	64.8 %	–	–
Employer ARC rate	9.7	14.0	8.1	2.7
Percent of ARC paid	60.1	48.8	100	100
Assumptions				
Discount rate	8.25	8.25	8.25	8.25
Payroll growth	4.0	4.0	4.0	4.0
Amortization period	30 yrs.	30 yrs.	20 yrs.*	20 yrs.*

* Level dollar amortization.

Sources: Actuarial valuations and CRR calculations.

NEW JERSEY TEACHERS PENSION ANNUITY FUND (TPAS)

Figure 3. Pension Costs as Percent of Payroll: Pre-Crisis, Post-Crisis, and Post-Reform



KEY FACTS

Structure of retirement system

- ☑ Social Security coverage
- ☑ Defined benefit
- ☐ Defined contribution/hybrid

Funding method and history

- ☑ Set by statute
- ☑ Actuarially determined

State excused from paying ARC in 2009, but must pay 1/7th of ARC in 2010, 2/7th in 2011, until full ARC is paid in 2017. Localities deferred paying 50 percent of ARCs in 2009 but now required to pay in full.

Plan design changes

- ☑ Cut COLA: all employees
- ☑ Increased employee contribution: all employees
- ☑ Increased age/tenure eligibility: new hires only
- ☑ Increased average salary period: new hires only
- ☑ Reduced benefit factor: new hires only
- ☐ None

Table 3. Pension Finances and Actuarial Assumptions

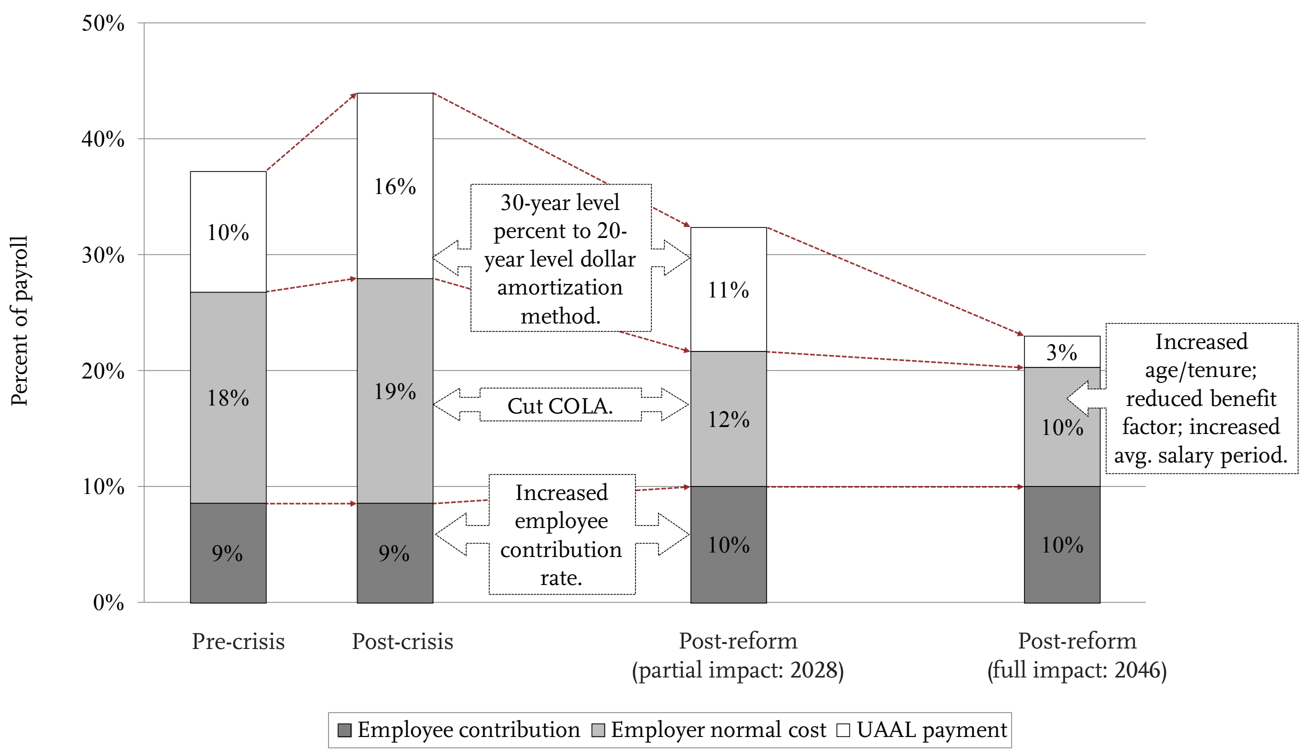
Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Plan finances				
Funded ratio	74.7 %	63.8 %	–	–
Employer ARC rate	16.3	20.1	12.3	4.2
Percent of ARC paid	49.1	6.0	100	100
Assumptions				
Discount rate	8.25	8.25	8.25	8.25
Payroll growth	4.0	4.0	4.0	4.0
Amortization period	30 yrs.	30 yrs.	20 yrs.*	20 yrs.*

* Level dollar amortization.

Sources: Actuarial valuations and CRR calculations.

NEW JERSEY POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)

Figure 4. Pension Costs as Percent of Payroll: Pre-Crisis, Post-Crisis, and Post-Reform



KEY FACTS

Structure of retirement system

- [ ] Social Security coverage
- [x] Defined benefit
- [ ] Defined contribution/hybrid

Funding method and history

- [x] Set by statute
- [x] Actuarially determined

State excused from paying ARC in 2009, but must pay 1/7th of ARC in 2010, 2/7th in 2011, until full ARC is paid in 2017. Localities deferred paying 50 percent of ARCs in 2009 but now required to pay in full.

Plan design changes

- [x] Cut COLA: all employees
- [x] Increased employee contribution: all employees
- [x] Increased age/tenure eligibility: new hires only
- [x] Increased average salary period: new hires only
- [ ] Reduced benefit factor
- [ ] None

Table 3. Pension Finances and Actuarial Assumptions

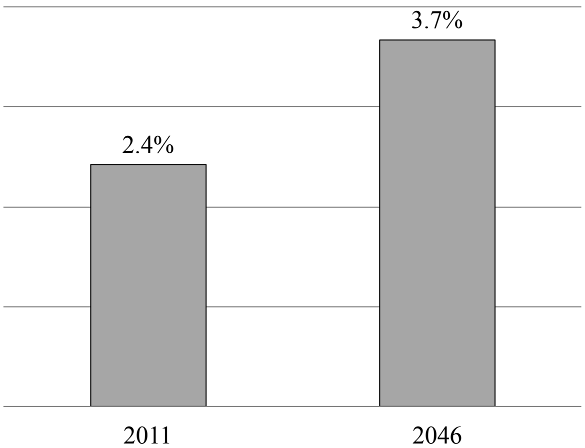
Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Plan finances				
Funded ratio	77.6 %	70.1 %	–	–
Employer ARC rate	28.6	35.7	22.4	13.0
Percent of ARC paid	68.7	68.3	100	100
Assumptions				
Discount rate	8.25	8.25	8.25	8.25
Payroll growth	4.0	4.0	4.0	4.0
Amortization period	30 yrs.	30 yrs.	20 yrs.*	20 yrs.*

* Level dollar amortization.

Sources: Actuarial valuations and CRR calculations.

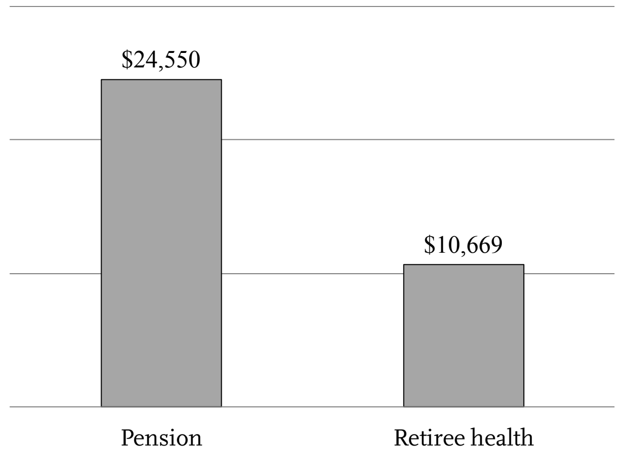
NEW JERSEY STATE HEALTH BENEFITS PROGRAM FOR RETIREES (SHPB)

Retiree Health as Percent of Budget



Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

Average Annual Benefit



Source: CRR calculations from plan actuarial valuations.

Retiree health funding and costs

- Funding method: Pay-as-you-go.
- Medical inflation rate: 9 percent, drops to 5 percent by 2019.
- Employer contribution: Employer and federal government cover 98 percent of cost of benefits for state workers and 95 percent of cost of benefits for local workers.

Benefits and membership

- Benefit eligibility: Full-time state employees eligible for or covered by SHBP and part-time state employees and faculty enrolled in SHPB at time of retirement are eligible.
- Benefits for Medicare-eligible retirees: Enroll in the same health plan as active employees.
- Active employees: 410,806
- Beneficiaries: 83,352
- Most recent actuarial valuation: 8/9/11