CHRISTIE REFORM AGENDA
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The Christie Reform Agenda:

Bringing Long Overdue Fiscal Sanity To New Jersey's Out-of-Control Pension System

"It is clear that our state can no longer afford a system that is rife with abuse, that promises substantial payouts with little buy-in, and that provides benefits that are wildly out of proportion with the private sector. The costs in the system remain dangerously out of balance and additional reforms are necessary to ensure the future solvency of the system."

- Statement by Governor Chris Christie on the Signing of Pension Reform Legislation

Governor Chris Christie has proposed a comprehensive reform package that will bring long overdue fiscal sanity to New Jersey's out-of-control pension system. The current system is unaffordable, antiquated and a consistent drain on New Jersey taxpayers. For too long, Trenton politicians' repeated pattern of expanding benefits without paying for them has threatened the future stability of public employees' pensions and unless addressed now will burden New Jersey taxpayers for decades to come.

Today's difficult economic and fiscal climate together with New Jersey's long history of expanding overly generous benefits makes it nearly impossible to properly fund the pension system without comprehensive reform. The current pension system is underfunded by $46 billion and, unless reforms are enacted, that number will grow to $181 billion by 2041, even if the taxpayers make all statutorily required pension fund contributions. Simply put, neither the New Jersey taxpayers of today or the New Jersey taxpayers of tomorrow can afford our state's broken, unsustainable pension system. The Christie Reform Plan will transform the current system and in the process save taxpayer dollars, create long-term stability and put New Jersey on the path toward fiscal sanity.

<u>The Christie Reform Plan: Putting New Jersey On the Path Toward Fiscal Sanity and Protecting Taxpayers</u>

New Jersey has a history approving expensive benefit enhancements that are popular with government employees and politicians, then using creative accounting tactics that artificially reduce the actuarially required employer and employee contributions. The impact of these changes can no longer be ignored or papered over without significant consequences for current and future generations of New Jersey taxpayers.

The cumulative impact of the reforms Governor Christie is proposing, projected over the thirty year period, will reduce total pension underfunding from $181 billion in 2041 without reform to $23 billion in 2041 and increase the aggregate funded ratio from the present level of 66% to more than 90% in 30 years.

Governor Christie is proposing changes to bring solvency and long-term stability to the following pension systems in New Jersey: Public Employee Retirement System (PERS), Teachers Pension and Annuity Fund (TPAF), State Police Retirement System (SPRS), Police and Fire Retirement System (PFRS), and Judicial Retirement System (JRS).

Changes for All PERS and TPAF Employees:

- Rolling Back the 9% Increase for Future Service: Governor Christie's proposal adjusts the benefit formula to N/65 for future service from the current N/55. This change will roll back the 9% benefit increase for all future earned credit in the pension systems, a change that was authorized in 2001 without any way to pay for it, and will also conform the benefit formula to the proposed new retirement age. This change is not retroactive for prior service earned by current employees.

Changes for PERS and TPAF Employees with fewer than 25 years of service:

- Updating the Age for Retirement Eligibility:
  - Establishing the normal and early retirement age at 65
  - Increasing eligibility for early retirement from 25 to 30 years of employment
  - Adjusting the early retirement penalty to 3 percent for each year
- A Fairer Calculation of Retirement Benefits: This change will require the use of an employee's average annual salary over the highest 5 years, rather than highest 3 years, when calculating their final retirement payout.

Changes for PFRS & SPRS with fewer than 25 years of service:

- Updating the Age for "Special Retirement" Eligibility:
  - Changes eligibility for special retirement from 65% with 25 years of service to 65% with 30 years and 60% with 25 years.
- A Fairer Calculation of Retirement Benefits: This change will require the use of an employee's average annual salary over the highest 3 years, rather than the highest year, when calculating their final retirement payout.

Changes for All Active Employees (PERS, TPAF, PFRS, SPRS & JRS):

- Setting Employee Contribution Rates at a Fair, Uniform Level Across Retirement Systems.
  - Employee contributions currently vary among the systems, from a low of 3.0% to 8.5%. Governor Christie's reforms will align Employee Contribution Rates at a uniform 8.5%.

Changes for All Current and Future Retirees:

- Eliminating Automatic Annual Payment Increases: Governor Christie's reform proposal calls for the elimination of additional annual future Cost of Living Adjustments.
  - Many states are reducing pension liabilities by lowering or eliminating cost of living adjustments (COLA), or eliminating COLAs for current and future employees. For example, Colorado reduced its 2010 COLA from 3.5% to 0% with a rate of 2% starting in FY2011. Minnesota reduced COLAs from 2.5% to 1-2% depending on the fund, and South Dakota made a 1% reduction in 2010 with future years COLAs based on investment performance.

Changes for a More Accurate and Honest Financial Forecast:

- Adjust the anticipated rate of return used by the Pension Fund from 8.25% to 7.5% to reflect a more realistic picture of today's investment climate; and
- Move the amortization methodology from a percentage of pay schedule (which defers the retirement of any Unfunded Liability) to a level dollar amount each year in order to retire part of our Unfunded Liability earlier.

Disability Reform Proposals:

- **Address The Growing Abuse Of Accidental Disability Expenses, By Better Defining The Standards For Qualification.**

- **Making PFRS and SPRS Earnings Tests match those used in PERS and TPAF:** PFRS and SPRS members would not be able to earn more than the difference between the disability allowance and the projected salary that they would have earned had they remained in police/firefighter employment.

Action is Required Now Before the Pension Problem Grows to Out-Of-Control Proportions

Without action, the total unfunded liability in the system will skyrocket to a shocking total of $181 billion over the next three decades. By 2041, New Jersey will be faced with a $119 billion state obligation, while local municipalities will be looking at a $62 billion burden.

- The probability of investment returns making up for the shortfall is very low. The Pension Fund's annualized return on investment was 2.6 percent over the last 10 years and a negative 1.4 percent over the last three years.
- Additionally, costs will increase more than 430 percent over the next 30 years, and this funding burden will dramatically impact New Jersey's fiscal health and threaten critical resources for education, municipal aid and countless other priorities.