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Business Manager

To: PANJ Members
From: George P. Christie
Date: September 21, 2010
Re: Christie Reform Agenda

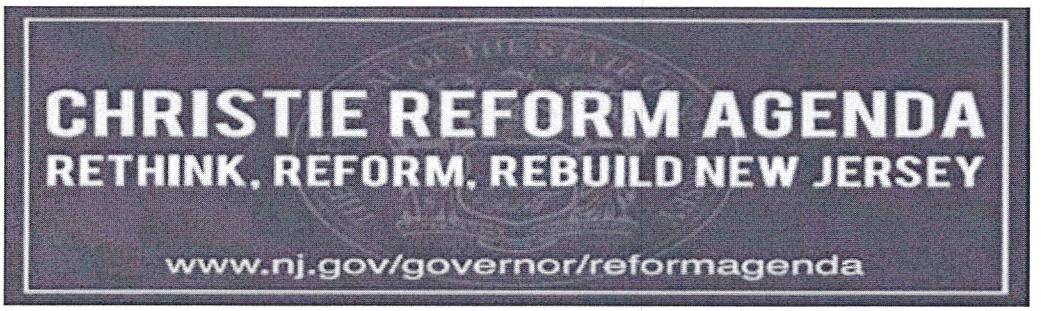
Governor Christie released his "reform agenda" that would cut pension and health benefits for public workers. Unlike measures that were passed several months ago, all of his proposed measures would impact current workers. Examples of measures he wants to pursue include, but are not limited to, having public employees pay 30% of their health benefits and pay a percentage of their health benefit premiums rather than a percentage of their salary.

The Governor also plans to roll back the 9% increase in pensions that was approved by the Legislature and Gov. DeFranco in 2001. This rollback would impact future service and increase the retirement age to 65. Currently, the state's pension funds are under funded by approximately $46 billion, and the health benefits shortfall is estimated at $67 billion. For almost two decades, the State has failed to make payments to the pension funds. To find the specifics of his plan, please refer to the Governor's proposal outlined in the attached documents. At this point, specific pieces of legislation outlining these measures have not been put forth.

The Legislature is currently in session and the Governor's proposals will certainly face opposition from various unions who represent state workers, police and firefighters as well as teachers who are resisting these proposed changes. Senate President Steve Sweeney has indicated he will not act on any proposal put forth by the Governor if the state fails to make payments to the pension system.

PANJ understands these initiatives will have a major negative impact on the quality of life for our members. Along with our lobbyists, Capital Impact Group and Princeton Public Affairs, PANJ will fight against the passage of any measures. At this time, bills related to these issues have not been introduced in the Legislature; however, if they are, we will apprise the sponsors of our opposition.

Feel free to contact the PANJ office at (732)223-1799 or Stuart Martinsen, Legislative Liason, at (732)278-0604, if you have any questions.



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.

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

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:

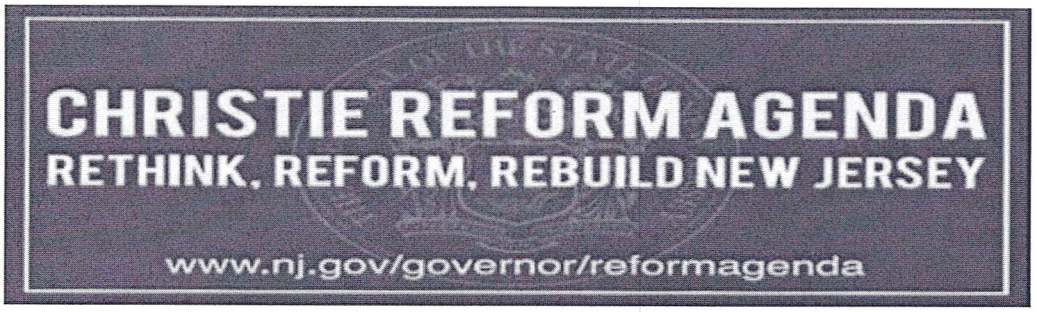
- **Address The Growing Abuse Of Accidental Disability Expenses, By Better Defining The Standards For Qualification.**

- **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.



The Christie Reform Agenda:

Reforming An Out-of-Control Benefits System to Restore New Jersey's Fiscal Sanity

> "...As I've said before, this system must move closer to achieving parity with the private sector's health benefit system... to make sure we examine a more equitable way of paying for health benefits for public employees in New Jersey."
>
> - Governor Chris Christie, April 29, 2010

Governor Chris Christie has proposed a comprehensive reform package that will finally transform New Jersey's bloated and antiquated benefits system in order to restore the state's fiscal health and create long-term prosperity. New Jersey spends $4.3 billion annually on public employee and retiree health care costs, and the problem is only getting worse. Currently, public employees and retirees pay a much lower share of the cost of their health care than most every other state public benefit system and the federal government, not to mention the private sector.

Right now, New Jersey's unfunded liability, or future costs expected in the system, is $66.8 billion. The cost for operating the health care benefits program for public employees and retirees is slowly sapping New Jersey's budget to the point where it is becoming impossible for state and local government to fund critical priorities and bring rising deficits into line.

The Christie Reform Plan fundamentally changes course by modernizing the system without raising taxes or cutting essential government services.

The Christie Plan: Transforming the System to Create Choice and Lower Costs for New Jersey Taxpayers

Governor Christie is proposing key changes to modernize New Jersey's public employee health plans that will result in savings for taxpayers, increased choice for employees and a benefits system that firmly puts New Jersey on a path toward fiscal sanity.

Health Benefit Reform for Active Employees:

- Gradually transitioning to a more realistic cost sharing model that has the employer pay 70 percent of costs and the employee pay 30 percent. Currently, New Jersey pays 92% of benefit costs, a

number that pales in comparison to the reality of private sector employees, not to mention other states and the federal government. Federal employees pay about 34 percent, more than four times what New Jersey government employees pay on average. The change would be completed by 2014.

- Switch to a system, used by the federal government, almost all states and most of private industry, that requires an employee to pay a percentage of the premium rather than a percentage of their salary as current law requires.
- Provide more options in health plans so employees can choose the plan that is right for each of them and their family. New Jersey offers only 3 health plans to employees compared to 269 offered to federal employees. Under Governor Christie's reforms, employees would be given more choice to enroll in a basic plan, or pay more to get enhanced coverage and convenience.
- Eliminate the NJ DIRECT10 plan.
- Based on underlying costs, we need to differentiate and in some cases modify benefits for example: co-pays for primary, specialist and emergency room visits; deductibles for out-of-network providers; coverage percentile for Reasonable and Customary out-of-network services; in-network out-of-pocket maximums.

Health Benefit Reform for Retirees:

The Christie Reform Plan would apply the majority of the plan design changes, and increases in options, applicable to active employees to current retirees, including elimination of NJ DIRECT 10. Copay changes, in line with the increase in plan options, are subject to change for retirees but contribution levels will remain the same.

Action is Required Now Before Public Employee Benefits Costs Grow to Out-of-Control Proportions

New Jersey spends approximately $4.3 billion annually on health benefit costs for public employees and retirees. Trenton has repeatedly refused to keep pace with innovations and cost-sharing measures used to reduce expenses that currently exist in the private sector. Instead, taxpayers have been forced to pay for public worker benefits that greatly exceed what the average private sector or federal government worker can obtain.

And the problem is only getting worse.

The $66.8 Billion Unfunded Liability For Post Retirement Medical (PRM) Benefits Is Even Greater Than The Unfunded Liability For Pensions.

- New Jersey currently has a $56.8 billion obligation which includes $36.3 billion for teachers and other school board employees whose PRM benefit is part of the State's retirement obligation.
- Local municipalities are responsible for sharing the burden with an additional obligation of $10 billion for employees that participate in the State Health Benefits Program.

Without Immediate Action, Costs Will Increase By More Than 40 Percent Over The Next Four Years.

- If action is not taken, the cost to taxpayers will grow by more than 40 percent in four years.
- While taxpayers will continue to pay for public employee benefits, without reform the average cost to an active public employee will increase by less than 10 percent over the same period.

Since 2001, The Cost Of Employee And Retiree Health Benefits To New Jersey Taxpayers Has Doubled.

- The cost of health benefits, as a percent of New Jersey's annual budget, has grown from 4.5 percent in 2001 to more than 9 percent today.