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MEMORANDUM

TO: George P. Christie, President

FROM: Rob Nixon

DATE: November 17, 2006

RE: ***Public Employee Benefit Reform recommendations***

As you are aware, the Legislature has been in Special Session for the purpose of reviewing the property tax structure in New Jersey and four special Committees were appointed to review areas of specific impact on the property tax. One of the Committees was appointed to study the pension and benefits provided to public employees at every level in the State. The Public Employees Benefit Reform Committee took testimony from all interested parties, publicly and privately, and their efforts have resulted in a 153 page report that makes 41 recommendations to change the pension, health benefits and other perks provided to public employees. These recommendations include:

Pension Benefits

- *Recommendation 1:* Limit defined benefit pension plans to full-time career employees and establish new defined contribution program for all new part-time employees, elected officials and full-time appointed officials
- *Recommendation 2:* Increase retirement age to 62 for new employees
- *Recommendation 3:* Reduce benefit formula for new members from N/55 to N/60 for new employees

- *Recommendation 4:* Cap pensionable salary, which is now unlimited, to Social Security wage contribution limit \$97,500 for 2007 for new employees
- *Recommendation 5:* Base “high salary” pension benefit calculations for new members for PERS from three years to five years
- *Recommendation 6:* Designate one job for one pension
- *Recommendation 7:* Repeal non-forfeitable right to pension benefits after five years of pension service for new employees
- *Recommendation 8:* Limit pension enrollment eligibility to \$5,000 minimum salary
- *Recommendation 9:* Allow all non-vested employees to opt into defined contribution program
- *Recommendation 10:* Exclude all professional service contractors from membership in PERS
- *Recommendation 11:* Require Division of Pensions and Benefits to investigate compensation increases that exceed reasonably anticipated annual compensation increases
- *Recommendation 12:* Close Prosecutors Part of PERS
- *Recommendation 13:* Close Workers Compensation Judges Part of PERS
- *Recommendation 14:* Repeal special retirement benefit enhancement in PFRS
- *Recommendation 15:* Prohibit non-uniform public employees from enrolling in PFRS
- *Recommendation 16:* Require forfeiture of retirement system benefits for public officials convicted of crimes involving abuse of office
- *Recommendation 17:* Replace accidental and ordinary disability benefits with private disability insurance coverage for PERS and TPAF members
- *Recommendation 18:* Continue moratorium on benefit enhancements in State-administered retirement systems
- *Recommendation 19:* Continue moratorium on early retirement incentives, except in cases of regionalization and consolidation initiatives resulting in cost savings
- *Recommendation 20:* Eliminate use of excess valuation assets to reduce employers’ normal contributions in State-administered retirement systems

- *Recommendation 21:* Use consistent and generally accepted actuarial standards for pension valuations

Health Benefits

- *Recommendation 22:* Require all active public employees to pay some portion of cost of health care insurance premiums
- *Recommendation 23:* Require future retirees to contribute some amount toward employer-paid SHBP benefits
- *Recommendation 24:* Provide flexibility to local government employers participating in SHBP to negotiate different levels of cost sharing and plan selection with their current employees
- *Recommendation 25:* Require that SHBP benefits changes negotiated by State be applied to local governments
- *Recommendation 26:* Limit SHBP participation to those who work at least 35 hours per week
- *Recommendation 27:* Allow local employers participating in SHBP to provide monetary incentives to public employees who elect to waive SHBP coverage
- *Recommendation 28:* Prohibit out-of-State purchased pension service from being creditable towards post-retirement health care benefits
- *Recommendation 29:* Prohibit multiple health care coverage in SHBP
- *Recommendation 30:* Offer SHBP basic health care plan at low cost to public employees and determine cost to employee of SHBP plan according to sliding scale with regard to employee's compensation
- *Recommendation 31:* Mandate use of mail order for maintenance prescriptions and encourage generic drug utilization for SHBP participants
- *Recommendation 32:* Require SHBP bulk purchasing of pharmaceuticals
- *Recommendation 33:* Study use of pharmacy benefit manager
- *Recommendation 34:* Require Division of Pensions and Benefits screening of SHBP for ineligible participants

- *Recommendation 35:* Establish disease and chronic care management program for all SHBP participants

Other Benefits

- *Recommendation 36:* Limit sick leave compensation payable upon retirement to \$15,000 for all local government and board of education employees
- *Recommendation 37:* Limit accumulation of vacation leave to one year for all local government and board of education employees
- *Recommendation 38:* Eliminate State's sick leave injury program
- *Recommendation 39:* Increase interest rate charged for pension loans in State-administered retirement systems from 4% to Prime -1%
- *Recommendation 40:* Review number of State holidays for public employees
- *Recommendation 41:* Ban dual elective office holding

The majority of these recommendations could have a direct impact on members PANJ and of the Public Employees Retirement System (PERS).

The Committee report suggests a wide range of changes and different methods for their implementation to the employee benefit system. Some of these changes in pensions are recommended only for prospective (or new) employees. Some of the changes in health benefits are recommended to be accomplished through the collective bargaining system.

It is expected that the Legislature will take up debate on these recommendations before the end of this year. The majority of these recommendations need to be passed as legislation by the Senate and Assembly and bills will be drafted soon to propose the changes.

PANJ needs to be an active participant in the legislative process moving forward and we will be advising you on next steps. PANJ may want to consider participating in an education process for legislators regarding why certain PERS benefits need to be protected. This may include phone calls and letters written to legislators, legislator meetings, testimony in Committee, and participation in public events.

We will be active in the legislative process and will be gathering information on your behalf about the potential legislation, the opportunity for amendments, and the timing of legislative action.