

Q and A on Pension and Benefits Legislation

Q: What are these bills?

They are a package of three bills and a proposed constitutional amendment that seek to change pensions and benefits for current and new active and retired public employees, including NJEA members. The first, S-2, deals with changes to the pension system; the second, S-3, deals with changes to state health benefits; and the third, S-4, deals with an assortment of other issues, including sick leave buyouts and disability retirements.

Q. Who is behind them?

They are being promoted by Sen. Stephen Sweeney (D-Gloucester), and supported by Gov. Chris Christie.

Q. What would the pension bill do?

It seeks sweeping changes in the pension system:

- requiring new school employees to work at least 32 hours per week to qualify for a defined benefit pension;
- changing the benefit formula for new employees from N/55 to N/60 (where N=number of years of service);
- changing the final average salary calculation for new employees from three to five highest years;
- allowing only one job per new employee for pension purposes;
- repealing the “non-forfeitable right” to pension benefits for all new employees;
- allowing new employees or employees with less than 10 years of service credit to choose the state’s Defined Contribution Plan (DCP) plan in place of the current defined benefit plans (PERS and TPAF)

Q: What is the definition of a “new employee”?

A “new” employee is defined as an employee who begins service after the effective date of the legislation, should it be enacted. Provisions in all the bills affecting new employees could also affect *current* employees if they leave the system and return after a break in service. In most situations, a break in service is considered two years or more, with no contributions to the pension system.

Q: Who is affected by the pension changes?

The bill would apply to all new employees. School employees already enrolled in the pension system would not see their pensions changed. Current school employees who have a break in service (see question above) would be treated as new employees when they returned to work.

Q: How would the 32-hour requirement affect new employees?

Some NJEA members work fewer than 32 hours. In addition, some elementary-level specialists (music, art, counselors, child study team members, etc.) are shared with other districts. The bill is unclear how they would be treated. But any new employee working less than 32 hours per week and earning more than \$5,000 would only be eligible for a defined contribution plan.

Q: How would the change from N/55 to N/60 affect new employees?

Currently, pensions are calculated by taking a member's final average salary, multiplying it by the number of years worked and dividing it by 55. Changing 55 to 60 in that formula would result in a 8.33% decrease in new employees' pensions.

Q. How would changing the calculation of final average salary (FAS) from three years to five years affect new employees?

Currently, FAS is calculated by averaging a member's three highest salary years. This bill would change that to five years for new employees. The exact impact would be different for each member, but preliminary estimates indicate it would decrease pensions by about 2% on average.

Q: How would the "one job for a pension" rule affect new employees?

Some school employees hold more than one part-time position instead of a single full-time position. Those employees would only be able to collect a pension for one of those jobs, denying them the ability to earn the equivalent of a full-time pension for working the equivalent of a full-time job.

Q: What is the impact of repealing the "non-forfeitable right" to pension for new employees?

The "non-forfeitable right" comes from a law which ensures that once an employee participates in the pension system for five years, his or her pension benefits cannot be reduced. Changing that law would pose a serious threat to new employees' pensions because the state would be able to change those pensions at any time in the future.

Q: What is the impact of allowing new members and members with fewer than 10 years in the pension system to opt in to the defined contribution retirement plan (DCRP)?

This change would be harmful to both current and future members of TPAF and PERS, and potentially very harmful to those employees who choose not to participate in PEERS or TPAF. If a number of newer employees elect to go into the DCRP, it would further weaken TPAF and PERS, as less money would be coming in to pay required benefits. Also, those employees who choose the DCRP would not be eligible for post-retirement health benefits. Additionally, they would have no protection if the value of their investments dropped.

Q: What is the impact of mandatory state funding of the pension systems?

Theoretically, mandating that the state fully fund the pension systems is a good idea which would significantly strengthen those systems. In practice, however, the state is already required to fully fund the systems, but regularly ignores that requirement. It is unclear why that would change with a new law. Further, the law would allow the state to phase in funding very slowly, over seven years. That means there would be at least six more years of underfunding by the state, which would make the current funding situation even worse.