

New Jersey Public Employee Pensions-From the Employees' View

Pushing the need for reform of New Jersey's pension system in his budget address, Governor Chris Christie said, "One state retiree, 49 years old, paid, over the course of his entire career, a total of \$124,000 towards his retirement pension and health benefits. What will we pay him? \$3.3 million in pension payments over his life and nearly \$500,000 for health care benefits—a total of \$3.8m on a \$120,000 investment. Is that fair?"

The "fairness" of public employee pensions in New Jersey is the heart of a huge dispute between public employees and those who claim, like Governor Christie, the system is unfair to taxpayers. In making his claim, the Governor cited the most extreme example to make his case (And one that legitimately needs to be addressed.) However, in considering substantial reform it makes sense to keep in mind typical public employees, for example, one that works 30 years and retires at age 62 when earning \$50,000. This typical employee in the Public Employee Retirement System or PERS (the fund serving most employees in state and local government) would receive a pension of around \$27,000 per year or less—depending on survivor beneficiary options. (Actually, the average "service" pension for county and municipal employees in PERS as of June 2009 was \$10,989/year). During his career, this employee contributed a percentage of his wages (now 5.5%) into the pension system. His employer contributed an amount based on an actuarial valuation of the system's assets and liabilities. For many years, this system worked without any problems. The current predicament stems from decisions made in the 1990's. In 1992, the administration of Governor Florio changed the way the system's assets were valued freeing \$765M to help balance the State's budget. The succeeding administration of Governor Whitman claimed to have found "extra" assets based on a new valuation and reduced anticipated employer contributions in 1994 and 1995 by almost \$1.5B, allowing Whitman to deliver on her campaign promise to cut income taxes by 30%. After it became apparent the claim of extra assets was false, the State under Whitman issued a \$2.75B bond issue (the largest in history) at 7.65% interest in order to fill the gap. The Whitman plan anticipated continued large growth in investment values and the ability to both pay off the bonds and fill in the pension asset gap from this growth. (Note: The fund has earned less than 6% annually since the bonds were issued.) Many disagreed with the proposal at that time. Former New Jersey State Treasurer Richard C. Leone declared, "There is no question but that this is creating future debt. This is just another way of getting around the balanced-budget requirement, a kind of deficit spending. It is the sort of thing that comes back to haunt you." New York Times Columnist Bob Herbert commented, "Mrs. Whitman and the long-term interests of New Jersey appear to be at odds. The Governor won election by promising tax cuts, and any further advances in her career will be powered by her ability to "deliver" on that promise. Like most politicians, her eyes are on the short term: today's budget, tomorrow's election. It requires courage to look beyond Election Day to the long-term interests of constituents." But Whitman was able to win legislative approval for her borrowing in part because there was something in it for everyone. Local governments were given a total or partial contribution holiday from 1997 through 2003 and even workers' contributions dropped from 5% to 3.5% of wages. And the plan worked until the stock market plummeted with the "dot.com" bust. In 2001 and 2002, return on investments was negative 10.4% and negative 9%. Moreover, just prior to the bust, pension benefits were increased 9% for current and future retirees. Under Governor McGreevey a return to full employer contribution was phased in from 2003 through 2008. (Employee contributions returned to the full amount in 2004). While better than the zero contribution under Governor Whitman, the phase-in still allowed the problem to expand. The stock market tumble in 2008 and 2009 increased the crisis.

All sides agree that the pension system faces a huge funding problem. Current estimates indicate the system needs \$46 billion dollars to meet its obligations. But blaming public employees for the problem does not reflect the facts. The fact is employers made no contributions into the system between 1996 and 2003 and in many cases have just returned to a full contribution. The fact is the assets of the system were used as a "credit card" in order to reduce taxes and balance budgets by past governors.

At some point, the demagoguery and misrepresentations of Governor Christie will catch up with him just like the truth is catching up with Governor Whitman (although much too late). In this case, we hope it happens before he causes a complete melt-down of the pension system. Christie currently proposes a constitutional amendment requiring employers to make their full contribution *but not until 2017*. And in his proposed budget, the State will again make no contribution. Looking back over the past 20 years, one has to doubt whether Governor Christie is trying to find a way to fix the pension system or is just seeking an excuse not to pay.

- ***Camden County Council #10 (6/22/10)***