

A Pension Turnaround

# Look What the Mayors Have Done!

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**T**he New Jersey Division of Pensions has received the most recent Valuation Reports from their actuarial consultants for the pension systems. The consultants concluded the reports as of June 30, 2010. They were adopted by the various Boards of Trustees at their February 2011 meetings. These valuations will be the basis for projected 2012 employer billings. The Division of Pensions quickly responded and posted on their web site projected 2012 pension payments that local governments will be required to make as of April 1, 2012. Based upon these reports it is most interesting to recognize the results Mayors and Governing Bodies have made towards pensions solvency. At the same time the valuation places in prospective the funding problems confronting local governments and property taxes.

THE STATE OF NEW JERSEY HAS EFFECTIVELY DUG THEMSELVES INTO A FINANCIAL PENSION HOLE BECAUSE OF THE LOSS OF ASSETS AND INVESTMENT INCOME IN 2008 ALONG WITH 14 YEARS OF MAKING NO CONSTRUCTIVE EMPLOYER'S OBLIGATION PAYMENTS.



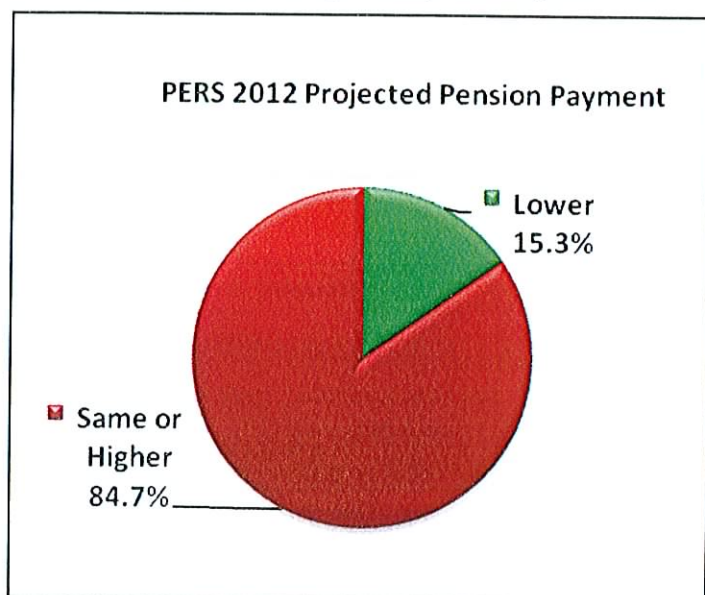
The State of New Jersey has effectively dug themselves into a financial pension hole because of the loss of assets and investment income in 2008 along with 14 years of making no constructive employer's obligation payments. The result is cries for pension reform. Contrasting the state, local mayors and governing bodies have made their employer payments even as the loss of assets has impacted property taxes. But one can see light at the end of the tunnel for at least one of the systems.

Note the pie charts which recognize the Public Employees Retirement System (PERS) results in 15.3 percent municipalities realizing a lower pension payment in 2012 than they were billed in 2011. This means 263 municipalities have lowered their pension obligation through contract negotiations (by limiting salary increases) and by reducing their work force.

The second pie chart shows the Police and Fire Retirement System (PFRS). One can see 6.6 percent of the local units will realize a lower pension payment obligation in 2012 as compared to 2011. Again, 39 municipalities have lowered their pension obligation by reducing workforce.

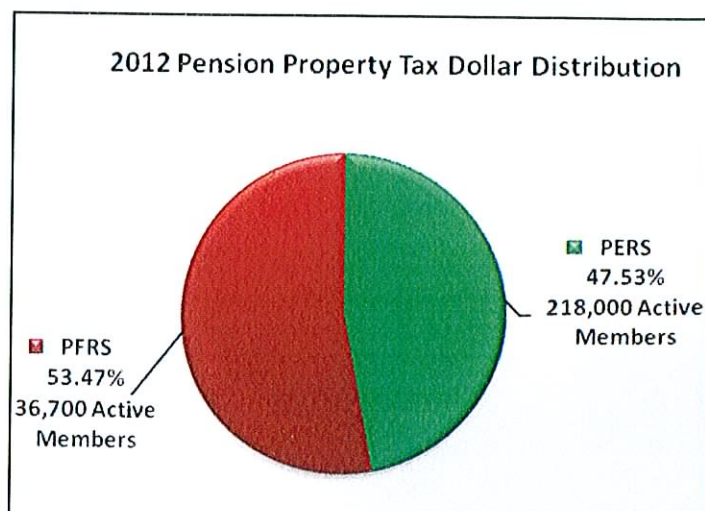
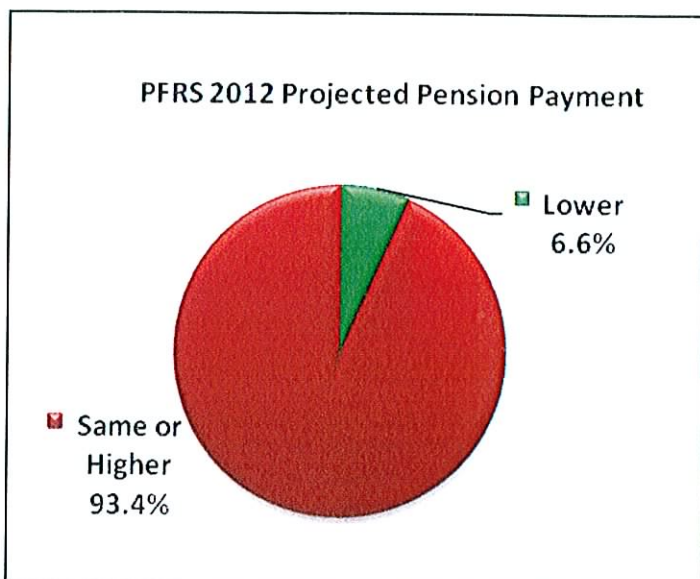
There is a lag time between actions taken by the Mayors and billings by the Division of Pensions. For PERS there is a two year lag and for PFRS there is a three year lag. Therefore, the results which are reported for 2012 billings reflect actions taken two or three years ago. We know the 2 percent levy cap has reduced the work force and will be reflected in out years.

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**Here IS the Problem** There appears to be some light to come at the end of the tunnels but for now PERS aggregate billing for 84.7 percent will increase by 6.73 percent from year 2011 to 2012. This is a modest increase compared to the 22 percent increase experienced between 2010 and 2011 but still demands a major portion of one's tax dollars.

PFRS continues to be a major problem. For the 93.4 percent units it will increase 10.8 percent in aggregate billing from 2011 to 2012. There are 36,700 active police and fire participants in the system which will cost \$988,511,079 in year 2012. It will cost more to fund these 36,700 employees than it will to provide pension payment for PERS which represents 218,000 employees during the same period. The aggregate billing for PERS is \$868,996,681 in 2012. The following pie chart shows the distribution of property tax dollars. As one can see 53.47 percent of property tax dollars are needed just to fund 36,700 active employees in contrast to PERS system.

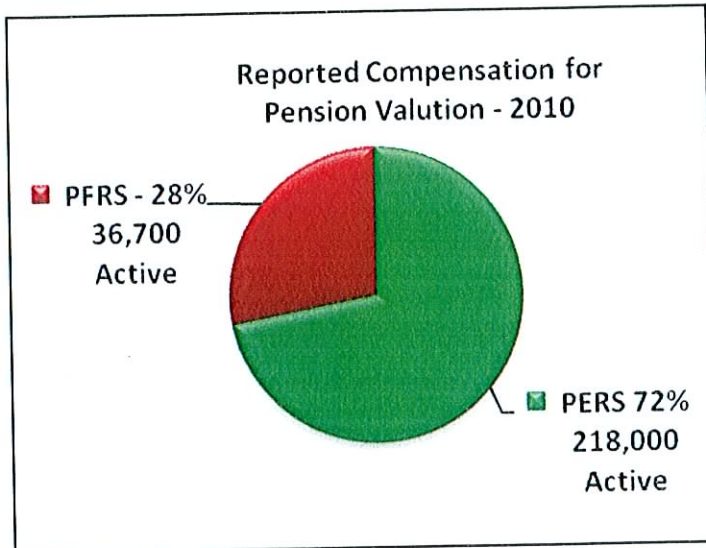


**Average Compensation** There is little doubt the rich benefits provided to members of the PFRS are driving property taxes through the roof. The Governor and Legislature must make reformation of PFRS a priority. There is need for balance to help tax payers at all levels, both state and local, and there must be reform to the PFRS as well.

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Based upon the 2010 valuations the local PERS compensation, which is, in part, the basis for which pension obligations are developed showed aggregate salaries of \$8,049,136,498 for the 217,973 active employees. This represents an average salary of \$36,927.22 for an active PERS employee. The valuation report for PFRS showed aggregate salaries of \$3,247,452,128 for the 36,632 active employees. This represents an average salary of \$88,650.70 for an active PFRS employee. The average PFRS members receive 2.4 times more in salary than the average non-public safety worker. At the same their benefits demand 53.47 percent of the property tax pension dollar. The property tax obligation for PFRS is 6.7 times greater than PERS funding of public workers. This ratio of pension costs versus salary costs is further demonstration of the need for reform of the rich benefits provided to PFRS and the impact it has on local property tax dollar.

The following pie chart shows a comparison of compensation as allocated between PFRS and PERS members.



It is clear the vast majority of working members in local governments are not directly related to uniformed public safety. The roads, engineering, health departments and utility functions are all represented in the 72 percent. At the same time, the earlier chart demonstrates the largest reduction in workforce has occurred in towns which are part of the PERS system. The levy cap is having impact.

The following table is a short synopsis taken from the latest valuation report. It is designed to demonstrate the sources of income for both PERS and PFRS have resulted in significant revenues which exceed the payments (outflow) required for retirees. Therefore, excess revenue is beginning to accrue (grow assets) for active members in order to insure there will be a pension available when they retire. The table reports contributions made by members, employer and the results of income from investments. In both systems the investment income is significant and reflects the results of the State Investment Council and recovery of the stock market.

The table also reports the minimal payments made by the state either through some of their agencies or for non-contributory insurance. The state assets continue to shrink with regards to their funding ratio while local governments may have bottomed out. We can anticipate improvements with regards to funding ratios and potential elimination of the unfunded accrued liabilities. Local governments are moving in the correct direction while the state continues to spiral down. Reform will help but all systems need correction.

	<b>2010 Valuation Funding Report</b>			
	Public Employees Retirement System (PERS)		Police and Fire Retirement System (PFRS)	
	State	Local	State	Local
Member Contribution	\$291,612,606	\$452,234,964	\$51,911,984	\$279,039,813
Employers Payment	\$100,384,987	\$819,253,665	\$7,500,329	\$993,576,982
Investment Income	<u>\$1,141,199,583</u>	<u>\$1,555,106,067</u>	<u>\$181,368,659</u>	<u>\$1,826,870,622</u>
Total Year's Receipts	\$1,533,197,176	\$2,826,594,696	\$240,780,972	\$3,099,487,417
Retiree and Other Payout	<u>(\$1,117,303,484)</u>	<u>(\$1,452,587,674)</u>	<u>(\$178,841,365)</u>	<u>(\$1,413,252,938)</u>
Balance Applied	\$415,893,692	\$1,374,007,022	\$61,939,607	\$1,686,234,479
Benefit Enhancement Fund Chapter 133 P.L. 201 (N/55)	\$0	\$380,091,623		
Cost of N/55 in 2012		(\$59,683,675)		
Balance		\$320,407,948		

If the Governor and state Legislature were to move forward with pension reforms which are truly reform to all systems, then property tax payers can anticipate relief. The effort of local elected officials is to encourage legislators to act appropriately for reform is vital to the health of the property tax system in New Jersey. ▲