

# New Jersey State

# Policemen's Benevolent Association

Anthony F. Wieners  
State President



Representing  
New Jerseys Finest

## PFRS Funding: Who is to blame?

How a decade of underfunding has damaged  
the long term health of the pension system

# PFRS Funding Levels

## An Overview of the Problem

From 1998 to 2009, local governments were given an unprecedented and lucrative opportunity to skip, reduce and defer their required payments into the Police and Firemen's Retirement System (PFRS).

At the height of the Pension Holiday from 2001 to 2004, local governments contributed only 12% of their required PFRS pension contributions.

This loss of funding not only zapped required money that would otherwise have been invested and used to pay down system liabilities but it also led to a greater underfunding of the PFRS and left local governments with HIGHER payments than they otherwise would have needed to make.

The current pension reform proposals do nothing to reclaim the losses caused by pension deferrals and serve merely to cast blame on PFRS members who faithfully funded their pensions while government mismanagement caused a severe drop in pension value.

# PFRS Pension Funding Cuts

## Legislative History

### P.L. 1997, Chapter 115

The Whitman “Pension Bond” law authorized the use of bonds and surplus pension assets to make a reduced pension payment toward normal contributions to the pension system.

### P.L. 2000, Chapter 8

The law was meant to be a onetime accounting maneuver using excess pension assets to permit the State and local governments to reduce their PFRS pension contributions for 2000 and 2001. Local governments were expected to save \$45 million of the \$275 million PFRS contribution in 2000 and \$22 million of the \$249 million contribution for 2001. In reality they saved close to \$65 million in 2000.

### P.L. 2001, Chapter 44

Local governments were again given a massive break on their PFRS contributions in 2001. Chapter 44 provided a \$150 million reduction in local government pension payments for 2001. The law was meant to “stabilize” PFRS pension contributions and *“savings realized by counties and municipalities as a result of the reduction will be required to be used for property tax relief”* (Assembly Appropriations Committee Statement to Senate Bill 1961). Local governments saved over \$170 million in 2001 and they made zero normal contributions in 2002 and 2003 as a result of the use of excess pension assets.

### P.L. 2003, Chapter 108

The law permitted local governments to stagger their pension contributions between 2004 and 2008 (20% payment in 2004, 40% payment in 2005, 60% payment in 2006, 80% payment in 2007 and a 100% payment for 2008 and thereafter). The money not paid during this phase-in period was added to the unfunded liability of the PFRS and is required to be made up by local governments in their future payments.

### P.L. 2009, Chapter 19

Local governments provided an optional pension deferral of 50% of their 2009 PFRS obligations.

# State PBA Record on fighting for sound PFRS funding practices

**The State PBA has strongly opposed the deferral of pension funds over the past decade.**

Even when other State and local employees received a reduction in pension benefits, the State PBA opposed any attempt to reduce their contributions into PFRS in order to protect the funding level of the pension system.

The State PBA supports the opinion of the Office of Legislative Services that deferring pension contributions hurts the pension system as well as local property taxpayers. We concur that their comment that ***“under almost any conceivable scenario the amount employers will have to pay will be higher”*** is an indictment on government’s pension underfunding schemes. (Fiscal Note to Senate Bill 7)

# Pension Reform Studies Warned that lack of funding, not PFRS members, are most serious problem facing pension system

***“The State (and by extension local government) must meet its financial obligation by fulfilling its duty to fund the pension system.***

From the 1990’s to the present, public employers at all levels of government have not fully adhered to their financial commitments to their employees. Before anything can be asked of employees in terms of a changed benefit structure, the State must first meet its existing obligations.” (Emphasis added)

Recommendations, Benefits Review Task Force to Governor Richard J. Codey, Philip Murphy Chairman, December 1, 2005

***The Joint Committee on Public Employee Benefit Reform, Co-Chaired by Senator Scutari and Assemblywoman Pou,*** concluded that one of the “main contributors” to the unfunded liability of the pension system are “State and local government employer pension “holiday” totaling \$8 billion over seven years”.

Executive Summary, Joint Committee on Public Employee Benefit Reform Final Report, December 1, 2006

# PFRS and its members are different

PFRS members (law enforcement and firefighters) perform an inherently dangerous job 365 days a year.

PFRS retirement benefits (normal, accidental, ordinary disability) reflect the nature of the risks associated with public safety

PFRS members face higher suicide and divorce rates and die earlier than the average employee.

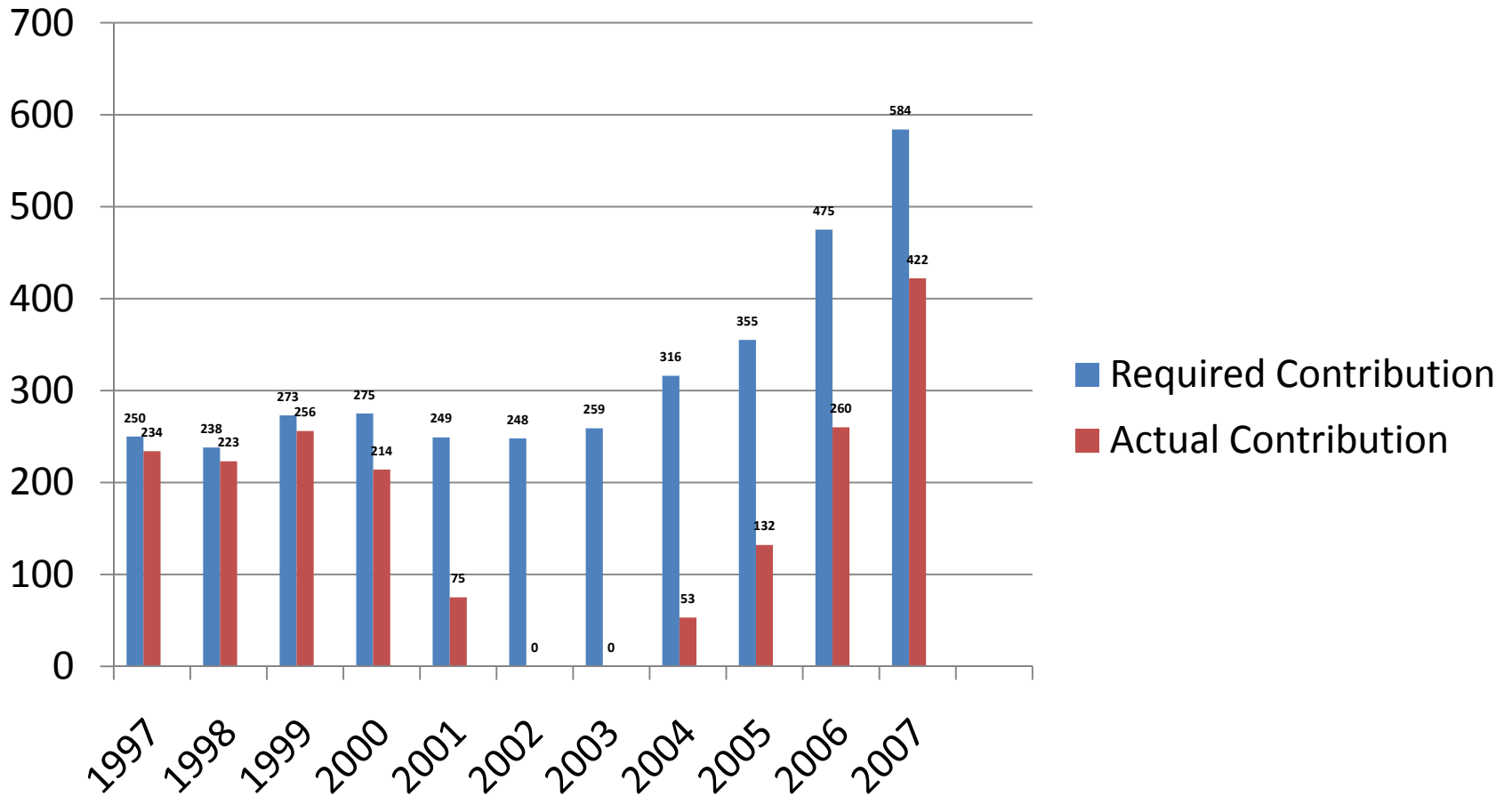
PFRS members make the largest pension contribution in NJ (8.5% of base salary).

PFRS members can't hold more than one position in PFRS and can't tack on jobs and salaries to get a higher pension as can be done in PERS

PFRS members NEVER deferred or reduced their pension contributions

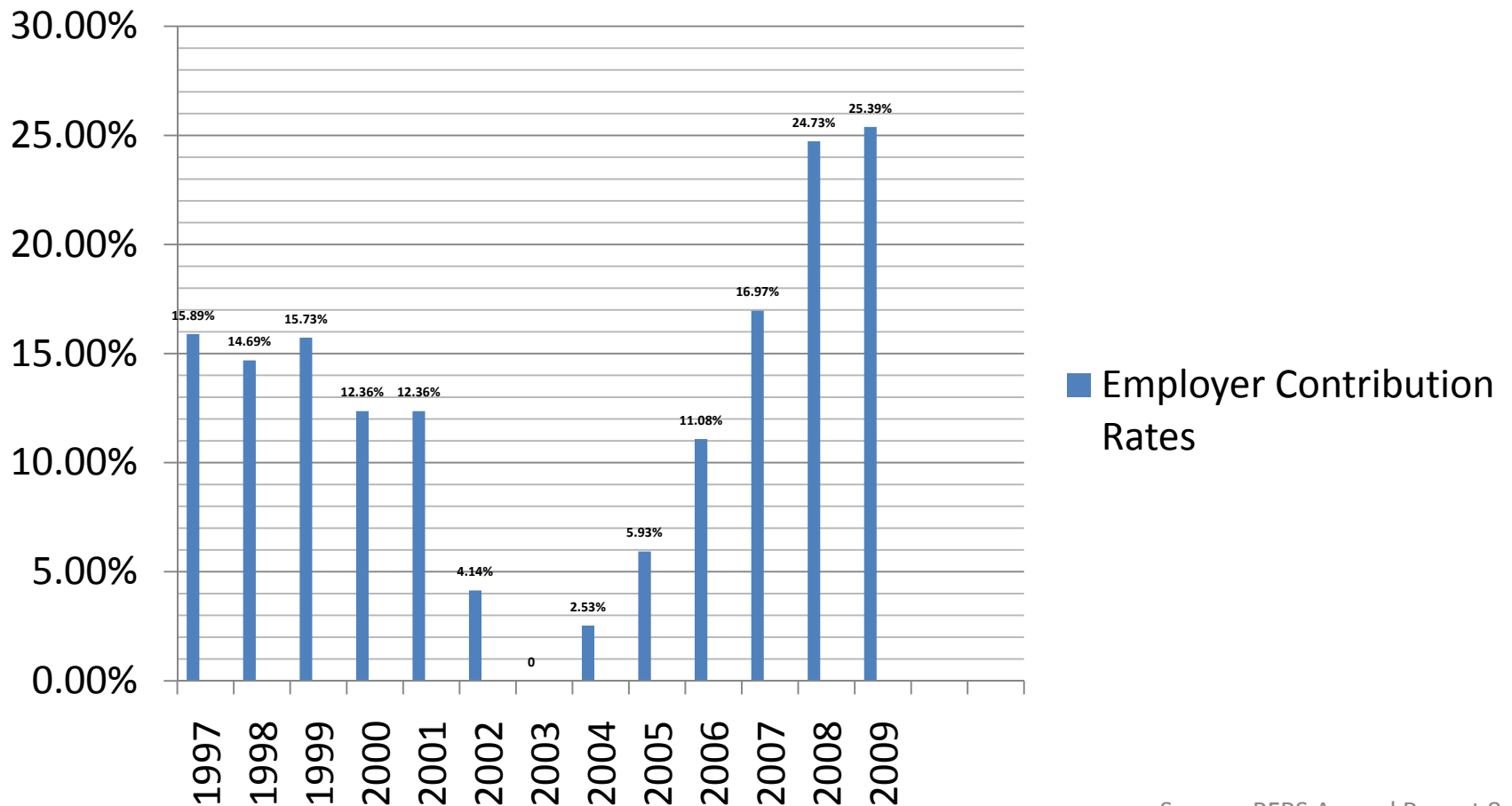
# ***Required vs. Actual PFRS Employer Contributions (Millions of Dollars)***

Lack of employer pension contributions have a direct impact on the rising costs to taxpayers. The impact to municipal budgets is therefore a result of deferrals, not employee benefits



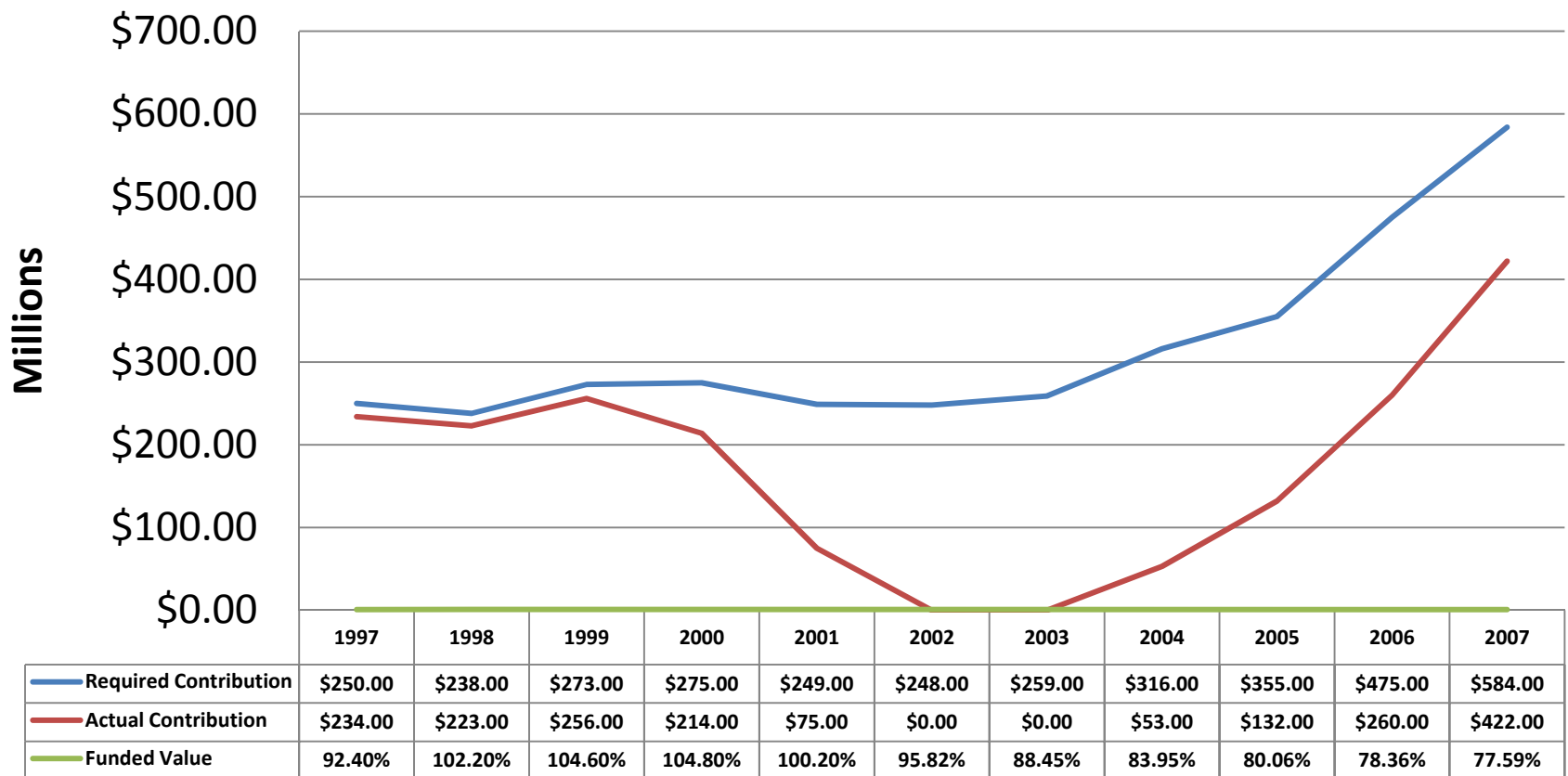
## ***PFRS Employer Contribution Rates 1997-2009 (Percentage)***

*The result of pension deferrals, coupled with the recession and bad investments, has led directly to a significant spike in the employer contribution rate for PFRS. The growing contribution required between 2003 and 2009 is required to pay for the unfunded liability caused by deferrals similar to this legislation. This percentage will continue to rise with every deferred employer contribution.*



A review of the “Funded Value” of PFRS shows that a lack of funding provided by employers as a result of pension deferrals and missed payments, combined with poor investments, caused the value of PFRS to plummet between 1997 and 2008.

The chart below shows a direct relation between the growing unfunded liability from deferrals and the value of the pension system.



# What are the alternatives?

The New Jersey State PBA is very aware that the State and local governments face an unprecedented fiscal crisis. ***However, we strongly believe that the past proves that pension deferrals destroy, rather than rescue, the financial conditions of local governments and that PFRS members have responsibly funded our pensions.***

Senate Bill 2 provides fails to address the root problems in PFRS funding and does nothing but blame PFRS members for the failure of government. The State PBA has proposed REAL REFORM to address areas that would have an immediate savings, including:

- **Eliminate references to PFRS in Senate Bill 2 and replace with language that achieves real cost savings and reforms, including banning retirees from being reemployed in a law enforcement agency and addressing State Supreme Court's "Richardson" decision on disability pensions. Both amendments will save millions immediately.**

We would also propose the following to protect the PFRS from further erosion:

- **Require local governments to make 100% of their pension contributions NOW and prohibit future pension deferrals.**
- **Allow a percentage of pension costs to be outside the 4% cap.**