

Senate Bill 2937 (Sweeney)

Pension and Benefit Reform Analysis

(Updated: June 21, 2011)

The following is an updated review of Senate Bill 2937. Several serious questions remain about the implementation and interpretation of the legislation. The State PBA has requested direction from legislative leaders and legal staff to a number of complex questions raised by this legislation. These include:

Does the new legislation supersede existing contractual language if an expiring contract contains a contribution for medical benefits that is GREATER THAN the proposed grid and phase in amounts?

If an officer with 20 or more years is currently covered by a contract that requires him to pay for health benefits upon retirement and retires AFTER that contract expires does this bill now exempt that officer from paying for medical since the bill will mandate both the phase in AND the exemption language?

Will S2937 require the survivor of an officer killed in the line of duty to pay for the cost of the premium for their health benefits?

Does this legislation have any impact on Chapter 330 retirees since they are not provided benefits from their employer and since they are already making contributions pursuant to an existing State law?

When is PFRS expected to reach its “targeted ratio” as a result of the cuts to COLA, future employee PFRS benefits and the increased contribution?

What happens to the PFRS Board of Trustees if the “LOCAL GOVERNMENT” side of PFRS reaches its target ratio and the “STATE GOVERNMENT” side doesn’t?

Does the new PFRS Committee(s) retain authority to approve retirements, disabilities and to pass regulations on retirement matters?

If the Local side of PFRS gains its independence but the State side doesn’t, could it be possible that 2 different PFRS Boards could rule differently on matters of policy regarding disabilities, pension rules or credible salary thereby creating conflict between employees covered by the same definition in law?

This is not an exhaustive list but it reflects the confusion and contradiction in existence when a massive bill is moved toward law in under a week. We will update this analysis as more information and clarity is obtained.

Police and Firemen's Retirement System (PFRS)

Establish Independent PFRS

PFRS Board of Trustees split into 2 Committees (State and Local government) when either State or local section of PFRS reaches a targeted funded ratio. The existing PFRS Board of Trustees remain in operation until the target funded ratio is reached.

PFRS Targeted Funded Ratio shall be 75% in FY 2012 increasing in increments over 7 fiscal years until a permanent 80% funding target is reached

Each PFRS Committee shall consist of 10 members

5 appointed by Governor to represent public employers

5 appointed by employees

2 members appointed by President of union representing the greatest number of police officers in the State (PBA)

1 member appointed by President of union representing the second greatest number of police officers in the State (FOP)

1 member appointed by President of union representing the greatest number of firefighters in the State (FMBA)

1 member appointed by President of union representing the second greatest number of firefighters in the State (IAFF)

Tie votes on any matter shall be decided by arbitrator appointed by PERC

Independent PFRS Committee will have power to:

Modify member contribution rates

Modify final compensation calculation

Modify Retirement ages

Reinstitute or adjust COLA

PFRS Funds remained co-mingled with other pension funds and control over investments remains with State through State Investment Council

PFRS Committee shall not make any decision that directly or indirectly results in a drop below the targeted ratio of 75% funded value of PFRS over a 30 year period

PFRS Benefit Reductions and Changes

PFRS contribution increases to 10% for all current and future employees

PFRS Special Retirement allowance reduced to 60% at 25 years of service and 65% at 30 years of service for all future employees

COLA is eliminated for all current retirees and employees except that future PFRS Committee may elect to reinstate or modify COLA. No current retiree shall have their existing pension benefit reduced as a result of ending COLA.

Between 7/1/18 and 7/1/28 the Amortization Period for PFRS is reduced from 30 years to 20 years

Pension Funding

Public Employees granted contractual “non-forfeitable rights” to pension funding by the government

Health Benefits and Collective Bargaining

Mandates contributions of 3% to 35% to health benefits and requires health benefit contributions to be paid into retirement (see grid below).

Applies immediately to employees where a CBA has expired and to employees in a CBA after it expires.

Payment for medical premiums applies to employees in both SHBP and in self insured local governments.

Phase in of Contributions

Establishes a 4 year phase in

- Year 1 - $\frac{1}{4}$ amount of contribution required
- Year 2 - $\frac{1}{2}$ amount of contribution required
- Year 3 - $\frac{3}{4}$ amount of contribution required
- Year 4 - 100% amount of contribution required

Health Benefit Premium Sharing Grid

Family coverage or its equivalent

- an employee who earns less than \$25,000 shall pay 3 percent of the cost of coverage;
- an employee who earns \$25,000 or more but less than \$30,000 shall pay 4 percent of the cost of coverage;
- an employee who earns \$30,000 or more but less than \$35,000 shall pay 5 percent of the cost of coverage;
- an employee who earns \$35,000 or more but less than \$40,000 shall pay 6 percent of the cost of coverage;
- an employee who earns \$40,000 or more but less than \$45,000 shall pay 7 percent of the cost of coverage;

an employee who earns \$45,000 or more but less than \$50,000 shall pay 9 percent of the cost of coverage;
an employee who earns \$50,000 or more but less than \$55,000 shall pay 12 percent of the cost of coverage;
an employee who earns \$55,000 or more but less than \$60,000 shall pay 14 percent of the cost of coverage;
an employee who earns \$60,000 or more but less than \$65,000 shall pay 17 percent of the cost of coverage;
an employee who earns \$65,000 or more but less than \$70,000 shall pay 19 percent of the cost of coverage;
an employee who earns \$70,000 or more but less than \$75,000 shall pay 22 percent of the cost of coverage;
an employee who earns \$75,000 or more but less than \$80,000 shall pay 23 percent of the cost of coverage;
an employee who earns \$80,000 or more but less than \$85,000 shall pay 24 percent of the cost of coverage;
an employee who earns \$85,000 or more but less than \$90,000 shall pay 26 percent of the cost of coverage;
an employee who earns \$90,000 or more but less than \$95,000 shall pay 28 percent of the cost of coverage;
an employee who earns \$95,000 or more or but less than \$100,000 shall pay 29 percent of the cost of coverage;
an employee who earns \$100,000 or more or but less than \$110,000 shall pay 32 percent of the cost of coverage;
an employee who earns \$110,000 or more shall pay 35 percent of the cost of coverage

Individual coverage or its equivalent

an employee who earns less than \$20,000 shall pay 4.5 percent of the cost of coverage;
an employee who earns \$20,000 or more but less than \$25,000 shall pay 5.5 percent of the cost of coverage;
an employee who earns \$25,000 or more but less than \$30,000 shall pay 7.5 percent of the cost of coverage;
an employee who earns \$30,000 or more but less than \$35,000 shall pay 10 percent of the cost of coverage;
an employee who earns \$35,000 or more but less than \$40,000 shall pay 11 percent of the cost of coverage;
an employee who earns \$40,000 or more but less than \$45,000 shall pay 12 percent of the cost of coverage;
an employee who earns \$45,000 or more but less than \$50,000 shall pay 14 percent of the cost of coverage;
an employee who earns \$50,000 or more but less than \$55,000 shall pay 20 percent of the cost of coverage;
an employee who earns \$55,000 or more but less than \$60,000 shall pay 23 percent of the cost of coverage;

an employee who earns \$60,000 or more but less than \$65,000 shall pay 27 percent of the cost of coverage;
an employee who earns \$65,000 or more but less than \$70,000 shall pay 29 percent of the cost of coverage;
an employee who earns \$70,000 or more but less than \$75,000 shall pay 32 percent of the cost of coverage;
an employee who earns \$75,000 or more but less than \$80,000 shall pay 33 percent of the cost of coverage;
an employee who earns \$80,000 or more but less than \$95,000 shall pay 34 percent of the cost of coverage;
an employee who earns \$95,000 or more shall pay 35 percent of the cost of coverage;

Member with child or spouse coverage or its equivalent

an employee who earns less than \$25,000 shall pay 3.5 percent of the cost of coverage;
an employee who earns \$25,000 or more but less than \$30,000 shall pay 4.5 percent of the cost of coverage;
an employee who earns \$30,000 or more but less than \$35,000 shall pay 6 percent of the cost of coverage;
an employee who earns \$35,000 or more but less than \$40,000 shall pay 7 percent of the cost of coverage;
an employee who earns \$40,000 or more but less than \$45,000 shall pay 8 percent of the cost of coverage;
an employee who earns \$45,000 or more but less than \$50,000 shall pay 10 percent of the cost of coverage;
an employee who earns \$50,000 or more but less than \$55,000 shall pay 15 percent of the cost of coverage;
an employee who earns \$55,000 or more but less than \$60,000 shall pay 17 percent of the cost of coverage;
an employee who earns \$60,000 or more but less than \$65,000 shall pay 21 percent of the cost of coverage;
an employee who earns \$65,000 or more but less than \$70,000 shall pay 23 percent of the cost of coverage;
an employee who earns \$70,000 or more but less than \$75,000 shall pay 26 percent of the cost of coverage;
an employee who earns \$75,000 or more but less than \$80,000 shall pay 27 percent of the cost of coverage;
an employee who earns \$80,000 or more but less than \$85,000 shall pay 28 percent of the cost of coverage;
an employee who earns \$85,000 or more but less than \$100,000 shall pay 30 percent of the cost of coverage.
an employee who earns \$100,000 or more shall pay 35 percent of the cost of coverage.

Base salary shall be used to determine what an employee earns for the purposes of this provision.

Percentage of payment required of members paying for benefits into retirement shall be based on annual pension allowance (at reduced percentages as listed above).

“Cost of coverage” means the premium or periodic charges for medical and prescription drug plan coverage, but not for dental, vision, or other health care, provided under the State Health Benefits Program.

Sunset Clause/Impact to all contracts

Health Benefit premium mandates “sunset” after 4th year and collective bargaining resumes. However, unions that are in contract when the bill becomes effective will still be required to pay a 4 year phase in of health care premium sharing when their current CBA expires and will be subject to negotiating the phase in amounts into their next CBA as if the premium share was part of their prior CBA.

Contributions to Medical into Retirement

Contributions for health benefits into retirement will be mandated for employees who have LESS THAN 20 years of service on the EFFECTIVE DATE of the Act.

Employees may purchase service credit toward making the 20 year mark for purposes of this bill only if they apply for the purchase before the bill is signed into law which is expected to occur as early as June 23, 2011 according to the State Treasurer’s Office.

“Local Option” negotiations to reduce/eliminate premium sharing

Collective bargaining groups who are not covered by SHBP are permitted the “local option” of negotiating costs savings below costs identified/established by SHBP and the premium sharing grid listed above. Any cost savings would be reviewed by the Department of Community Affairs and, if verified, would permit bargaining unit to avoid or pay lower premium sharing than required in grid.

Impact on Expiring CBA’s or amendments to existing CBA’s

The bill prohibits existing CBA’s to be amended, renegotiated or altered to extend benefit arrangements in effect on effective date and provides that any such action will be considered “a new CBA” for purpose of the law thereby triggering premium sharing

State Health Benefits Plan Design (SHBPD)Committee

Establishes a Committee to review and govern state health benefit costs. Grants Committee the following powers:

- Authority over all health plans established by SHBP
- Power to establish, create, modify or terminate health plans and levels of coverage

Power to establish 3 levels of coverage in each plan (single, family, children)
Sole discretion over maximums, co-pays, deductibles and other plan costs

SHBPD Committee composed of 12 members (6 employer/6 employee) with State PBA granted a seat on Committee.

Use of Out of State Health Care Providers

Companion legislation to this bill, Senate Bill 2959, establishes that beginning January 1, 2012, the State Health Benefits Plan Design Committee, the School Employees' Health Benefits Plan Design Committee, or any public employer that offers health benefit plans to public employees, retirees, and any dependent thereof, offer at least one health benefit plan to plan participants that will include only in-State health care providers and that will be subject to certain requirements, and at least one health benefit plan to plan participants that will include out-of-State health care providers and that will not be subject to certain requirements.

The bill establishes complex limitations on the use of out of state specialists and hospitals except that medically necessary specialized care may be performed by an out-of-State specialty or subspecialty health care provider when there is no in-State health care provider reasonably available. A doctor would be required to certify that no NJ care or treatment is available.

The law would not apply to: (1) emergency care; (2) primary care; or (3) such other unusual and compelling circumstance determined by the State Health Benefits Commission or the plan administrator or when it is medically necessary for the employee, retiree, or covered dependent to continue current treatment with the out-of-State health care provider, or when the employee, retiree, or covered dependent has been receiving tertiary care from an out-of-State health care provider prior to the enactment of the law.

Effective Date of Law

Bill takes effect immediately upon signing by Governor.