

# Court Rules New Jersey Must Make Promised Payments

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**MarketWatch Blog** by Alicia H. Munnell



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## *State faces big pension hurdles going forward.*

Anyone even slightly interested in pensions – or politics – knows that on February 24, 2015 a New Jersey judge ordered Gov. Chris Christie to reverse a \$1.57 billion underpayment in 2015 to the state’s pension fund. This seems like a terrific decision given that the State made a deal in 2011 for public employees to give up some of their benefits in exchange for the state’s commitment to fund the pensions. Moreover, when the legislature reduced benefits in 2011, it did not immediately require full funding of benefits, but instead allowed for a seven-year ramp up. The State in 2015 failed to make good on even the reduced ramp-up amount.

As the rhetoric accelerates in days to come, it’s helpful to remember the facts. Before the financial crisis, benefits provided by New Jersey’s three large state-administered systems – covering general employees, teachers, and police and fire – were near the national average. After the crisis, New Jersey sharply reduced its costs for these systems. The 2011 legislation immediately eliminated the cost-of living adjustment (COLA) for current and future retirees – roughly equivalent to a 20-percent benefit cut, although this provision is still tied up in the courts. The legislation also increased

employee contributions from 5.5 to 6.5 percent of annual salary (8.5 to 10 percent for police and fire) and established an additional 1 percent increase to be phased in.

For new hires, benefits were further reduced by lowering the benefit factor (the percentage applied to final earnings to calculate benefits), increasing the period for calculating average salary, and increasing the retirement age for teachers and general employees. Once new hires replace current employees, the annual pension cost for general employees will be about 9 percent of payroll, with the employee contributing 7.5 percent. The cost for teachers will be about 10 percent with an employee contribution of 7.5 percent. For police and fire, the cost will be about 20 percent with an employee contribution of 10 percent. These provisions mean that, based on the system's assumed investment return, most employees will pay for the bulk of their pension benefits.

So the story is that the public employees have lived up to their side of the agreement and the state has not. Moreover, given New Jersey's slow recovery from the Great Recession, the state may never be able to make the payments required to fund its public sector pensions. If true, public employees may have to work with the state to find a solution. That process would be a lot easier if the Governor stopped blaming public sector workers and acknowledged that the failure comes from his side.