

## New Jersey Pension Basics

Defined Benefit Pension: A defined-benefit plan relies on regular contributions from workers and/or employers that is invested over time. At retirement, a monthly benefit is granted to the worker based on a formula that takes the worker's earnings history, length of service, retirement age, and several other factors into account. If regular payments are made, actuarial assumptions are accurate and the funds are invested well, a defined-benefit plan doesn't cost the employer more than a defined-contribution plan like a 401(k), but it provides much more security to the employee.

The law in New Jersey: According to the pension and benefits reform bill passed in 2011, the pension payment consists of the normal cost + the unfunded accrued liability. The **normal cost** is the money needed to pay the benefits accrued for that year. If a payment is skipped, the next year that payment needs to be made up, plus any interest those payments would have accrued. That is the **accrued unfunded liability**. Unfunded liability can also occur if pension assumptions turn out to be incorrect: for example, if more workers than expected retire, or investment returns do not hit expected levels. It is also possible for a plan to be overfunded, for example, if investments do better than expected.

The State of New Jersey has not made a full pension payment since 1995. Therefore, the accrued unfunded liability is significant. Meanwhile, the normal cost is only about \$600 million a year for state workers. Depending on the actuarial assumptions used, the state has incurred debts of somewhere between \$36 billion and \$83 billion due to two decades of skipped payments.

New Jersey's pension for civilian workers is an average of \$26,000 for a state worker and \$21,000 for a local government or county worker. The New Jersey state worker civilian pension is the least generous pension in the region—New York, Pennsylvania, Delaware, Connecticut and Massachusetts all have more generous benefits, even though workers in New Jersey pay more for the benefit than all of those states except Massachusetts.

Of the 100 largest public pension plans in the country, the New Jersey civilian plans are the 95<sup>th</sup> most generous. This is despite the fact that civilian workers in the state and local government PERS contribute nearly 80% of the normal cost into the pension (Workers contribute 7.5% of salary, employers in PERS plans contribute 1.35%).

If we continue on Christie's current path of only funding the normal cost, state worker PERS runs out of money in 2024 and the Teachers' Pension Annuity Fund runs out of money in 2027.