March 19, 2018

Re: Bill to Transfer of PFRS to a Labor-Management Board before Assembly Committee - Time Sensitive

Dear Mayor:

On Thursday, March 22 the Assembly Appropriations Committee will consider A-3671, the companion bill to S-5, which transfers the management of Police and Fire Retirement System (PFRS) to a Board of Trustees of PFRS. This legislation would disproportionately shift control of the PFRS, from balanced labor-management control, to a union-dominated (7-5) decision-making structure.

Please contact and ask your Assembly Representative (for contact information) to oppose this bill until it is amended to add the necessary safeguards advocated by the League, the Conference of Mayors (NJCM), and the Association of Counties (NJAC.) Please see these recommendations below.

Like its Senate companion S-5, A-3671 will authorize the labor-management board, *at its discretion*, and at such time and in such a manner as it determines, the ability to:

- Enhance any benefit set forth in N.J.S.A. 43:16A-1 et seq.; and
- Modify any such benefit as an alternative to an increase in the member contribution rate; and
- Reinstate, when appropriate, such reduced benefit to the statutory level without an additional contribution by the member.

The legislation would allow the PFRS Board to enhance member benefits without meeting the 80% target fund ratio. The target fund ratio is a measure put in place to ensure the financial stability of the State's pension systems prior to enhancing member benefits and something that is required by the State's other pension systems.

A-3671 included the following minor changes from the Senate version:

- The independent actuary is selected by the State Treasurer and not the Board;
- Eight (8) votes would be needed for any enhancement or reduction of a member's benefit, including cost of living adjustments; and
- The Board would be permitted to make adjustments to the members' contribution rate, as long as that such change will not result in an increased employers' contribution, based upon actuarial certification.

While we appreciate these changes they do not address the significant issues raised by the League, the Association of Counties and the Conference of Mayors. Thus, the League adamantly **opposes A-3671.**

Given the inaction on extending the 2% cap on binding interest arbitration awards, the sun-setting of employee health benefit controls implemented under Chapter 78, the restricting of SALT deductions on federal income taxes, and the long-term ramifications of enacting this legislation, without the recommended safeguards, municipal and county leaders fear they are facing a perfect storm of uncontrollable property tax growth and substantial service cuts.

Funded entirely by property taxpayer dollars, municipal and county governments will spend an estimated $913.0 million in 2018 to subsidize the Police and Firemen's Retirement System (PFRS), while PFRS members will contribute approximately $334.0 million to the defined benefit plan. In other words, property taxpayers will finance over 73.0% of PFRS in 2018, while PFRS members will pay 27.0%.

PFRS is not like a 401K. Rather, it is a defined benefit program, in which the employers are responsible for any shortfall in funding. Employees' contribution rates are capped by statute at 10% of their salary while the employers' contribution rates are based on the funds needs and performance, based on actuarial reports. Currently, that requires local employers to contribute 27.35% of the employees' salary.

As a result, any shortfall, due to a downturn in the economy, mismanagement of fund assets, or any enhancement in benefits ordered by the labor-controlled board, will be borne by property taxpayers.

The League, along with NJCM and NJAC, opposes the bill for the reasons outlined above. We have unsuccessfully requested the following taxpayer-friendly changes that will serve to protect the long-term health and viability of PERS as well as establishing critical safeguards that require the new Board of Trustees to manage valuable property-taxpayers'-dollars in an effective and efficient manner. Our amendments would:

- Create a 15-member PFRS Board of Trustees comprised of an equal number of labor and management representatives with 1 independent member;
- Authorize the League and Association of Counties to make direct management appointments to the new Board of Trustees as is the case for the labor representatives;
- Prohibit the new Board of Trustees from enhancing member benefits until the system achieves a target funded ratio of 80% as required under current law;
- Require a supermajority of the full membership of the new Board of Trustees to enhance members benefits, and only after the system achieves a target funded ratio of 80%; and
- Establish a mandatory retirement age.

The League and Association of Counties further suggest that if the Legislature and Governor fail to amend the measure accordingly, then PFRS must be changed to a defined contribution plan where employees make greater contributions and assume a greater risk of loss as is the case with 401(k) investments.

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Sincerely,

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Executive Director