

March 9, 2017

Re: S-3040

Dear Mayor:

Later today, the Senate Budget and Appropriations will consider [S-3040](#), which would transfer the management of the Police and Fire Retirement System (PFRS) from the Division of Pensions and Benefits in the Department of the Treasury to a Board of Trustees comprised of Labor and Management representatives. The Board, acting exclusively on behalf of contributing employers, active and retired members, would have the general responsibility for the proper operation of the retirement system.

The League's working group on this issue, as well as the League Officers, have fully reviewed this legislation. The working group includes elected officials as well as appointed officials representing a number of League affiliate organizations, including the NJ Municipal Management Association, the Tax Collectors and Treasurers Association and the Government Finance Officers Association. League Staff have been in close communication with the stakeholders involved and are also working in coordination with the New Jersey Association of Counties.

For over two years this group has worked to build bridges and a dialogue with the unions representing the local PFRS members. Fortunately for the most part we have found willing partners in that dialogue and an open line of communications, which we look forward to maintaining on this important issue.

We are not necessarily opposed to the concept of S-3040, that is the creation of an independent governance board for the PFRS comprised of Management and Labor.

We have serious reservations with the bill and oppose it in its current form. We have asked the sponsor and the Committee to hold this bill so that the issues outlined below can be thoughtfully and adequately addressed.

The composition and authority of the PFRS Board envisioned in this bill needs to be reconsidered.

The PFRS is a defined benefit system, where the amount of the retirement compensation is calculated on a formula which accounts for length employment and salary history not on the return of the funds' investments. As a result if there is a shortfall in a return from investments the employers (in this case municipalities and counties) must make up the difference from their general funds. At present time, local government employers are contributing 25.51% while the employee is contributing 10% to the PFRS. S-3040 creates a system where the employees retain control while the employers, which ultimately are our property taxpayers, assume the risk.

Because the employers have a greater stake in the risk we strongly believe that:

1. The board should comprise an equal number of labor and management representatives with one independent member for an uneven number of members. The legislation as introduced would create a 12 member Board of Trustees with 7 labor representatives and 5 management representatives.

2. The bill should include checks and balances on the board's ability to enhance the benefits. Procedures should be established that protect the fund, employee, retirees and employers. The legislation would permit the board, in its discretion, to enhance any benefit set forth in N.J.S.A. 43:16A-1 et seq.; modify any such benefit as an alternative to an increase in the member contribution rate; or reinstate, when appropriate, such reduced benefit to the statutory level without an additional contribution by the member.

3. A vote by a super majority of the Board of Trustees should be required to enhance member benefits or any increase cost drivers to employers as well as other checks and balances. The legislation as introduced would require a vote by simple majority to enhance member benefits.

4. The provision of withholding State Aid for non-payment of the employer contributions must be removed. Local governments have consistently made their pension payments and other safeguards exist that would prevent a local government employer from skipping a payment. This provision is simply unnecessary.

According to the proposed legislation this new PFRS Board of Trustees may, in its discretion and at such time and a manner, as it determines:

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

The Board's primary obligation would be to direct policies and investments to achieve and maintain the full funding and stability of the retirement system for the benefit of its members. The Board, acting exclusively on behalf of contributing employers, active and retired members, would have the general responsibility for the proper operation of the retirement system.

For these reasons, the League, joined by our partners at the New Jersey Association of Counties, have asked the sponsor and the Committee to hold this bill so that these remaining issues can be addressed in a thoughtful and deliberative manner.

To date, there is no Assembly companion but we do expect a bill to be introduced soon.

Please contact your State Senators on this issue and we will continue to provide you updates.

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Sincerely,

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