

New Jersey Pension and Health Benefit Study Commission

Findings and Recommendations

Monday Standard and Poor's downgraded New Jersey's debt, citing the growing pension shortfall. This is the tenth downgrade under Governor Christie. It follows on a report by Bloomberg that New Jersey's distressed government worker pension system is now the worst funded in the U.S. The new estimate shows \$95 billion underfunded! We are also saddled with a ruinously expensive public employee and retiree health benefits system.

The Bipartisan New Jersey Pension and Health Benefit Study Commission believes there is a sensible way, however, for the State to step back from this perilous fiscal cliff. And that's to adopt long-overdue reforms of the health benefits system which would:

- 1) Yield sufficient savings to fund all pension benefits earned to date;
- 2) Pay for a revised retirement program going forward;
- 3) Permit meaningful property tax relief; and
- 4) Preserve public workers' benefits at or above private sector levels.

PRINCIPAL CONCLUSIONS OF THE COMMISSION

- The State's unfunded pension liability is now \$95 billion based on the conservative methodology used by GASB, which most Commission members believe is most relevant. In the past year, the unfunded liability increased by \$14.7 billion - \$40 million a day.
- At the current rate of decline, several of the State's pension plans could go broke before the end of the second term of the new Governor, to be elected next year.
- New Jersey public sector health benefit costs are among the most generous and expensive in the nation; they offer no incentive for employees to select anything but the most comprehensive coverage at the highest cost to the State.

<u>Plan</u>	<u>% Cost of Care Covered by Plan</u>
New Jersey Public Employees	96% (ACA Platinum Plus)
Highest Affordable Care Act (ACA) Level	90% (ACA Platinum)
Corporate Private Sector	82% (ACA Gold)

- Providing platinum-plus health benefits cost the State \$3.7 billion in 2016. Local governments paid \$8.1 billion more, with costs increasing 9% a year.
- Based on current trends, the cost of State-paid pension and health benefits will more than double by 2022 to nearly \$11 billion, consuming 27% of the State's Budget.
- Natural growth in State revenues cannot keep pace with increasing benefit costs. The State's annual tax revenues have increased only 3.4% a year since 2010 and 3.5% since 2013. Moody's has opined that this level of growth is inadequate to fund increased

benefits costs and still be able to respond to other needs, noting that further loss of budget flexibility would undermine the State's already dismal credit rating.

- There is a solution. Based on estimates prepared by McKinsey & Company, the Commission's health benefit reforms (if implemented in 2016) would have saved \$1.4 billion at the State level and an additional \$2.7 billion at the local level.
- The Commission proposes that the annual savings be dedicated by Constitutional amendment to stabilize, over a period of 30-years, funding of State pension benefits earned to date, with pension benefits going forward earned through a sustainable cash-balance program. Savings in State health benefits costs would produce most of the needed funding, supplemented by dedication of a greater share of existing State revenues.
- Local health benefits savings would provide at least \$1 billion in annual net savings, and could be used to reduce New Jersey's staggering property tax bill.
- This approach would keep benefits costs below 15% of the budget, a figure the Commission believes marks the threshold for sustainable benefits funding.
- Moody's has reported that these reforms would give the State "budgetary flexibility to make larger pension contributions and resolve a significant portion of New Jersey's long-standing structural imbalance." Fitch Ratings similarly concluded that the reforms "could provide notable annual state cost savings and thus improve prospects for future budget sustainability."
- During two years of the Commission's work, no other viable proposal has been advanced to both stabilize the pension plans and identify a practical source of funding.

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