

Bond Case Briefs

Municipal Finance Law Since 1971

Gov. Chris Christie Panel Proposes Overhaul of New Jersey's Pension System.

Gov. Chris Christie's committee to study New Jersey's troubled pension system wants to overhaul the retirement program for public employees, freezing the current setup and replacing it with a "cash balance" plan.

The plan would spread out the current pension system's unfunded liability over many years, and would more closely reflect benefits in the private sector, according to members of the commission. Mr. Christie endorsed the report conclusions Tuesday in a speech to the Legislature.

The commission is also calling for a state constitutional amendment to require governors to make payments to the new plan.

"Although the proposed plans are likely to be less generous to long-tenured employees as compared with the current plans, a less generous plan that is funded is preferable to a more-generous plan that isn't," the report says.

Benefits in the new plan could swing based on fluctuations in the stock and bond markets, introducing an element of risk.

Workers in the system would have their current plan frozen, according to Tom Healey, the commission chairman, and new workers would be entered into the new plan. Employees would have individual accounts, he said.

"You can do lots of different things with a total mess," Mr. Healey said in an interview. "You can either say, let's try to fix it or you can move to Wisconsin. We're at the edge of the cliff here."

The proposal received pushback from some unions and Democrats. Mr. Healey said he had met with the state's main teachers union, and said its leaders were cooperative. Other meetings are scheduled in coming weeks.

Wendell Steinhauer, president of the New Jersey Education Association, said the union supports the proposal's recommendations to freeze benefits of the current pension system, create a newly managed one and adopt a guarantee of state funding in the state constitution.

But Mr. Steinhauer said that some of the pension proposal "unfairly burdens" workers and wouldn't be feasible.

"There will be many things that NJEA disagrees with, some of them very strongly," Mr. Steinhauer said in a statement. "This is a report. It is not a law, and it is not the final word on what will or must happen."

Other states such as Kentucky and Louisiana have recently introduced cash benefit plans, though Louisiana's plan was ruled unconstitutional.

Joshua Franzel, a vice president for research at the Center for State and Local Government Excellence, said cash benefit plans are a way for states to provide more predictability in their pension systems.

The plans tend to guarantee a certain rate of investment return, but unlike a defined benefit pension system the hybrid ones don't lock in a fixed allowance based just on the worker's salary. It shifts some of the risk of market fluctuations to the employee without fully doing so, Mr. Franzel said.

"It's a middle approach for managing risk and trying to control costs and control liabilities," said Mr. Franzel, whose center studies pensions. "We are seeing a trend to more states beginning to consider and implement hybrid plans."

New Jersey's pension system is underfunded by about \$37 billion.

The commission's report said parts of its approach are likely to be unpopular at first but that "in time they will be viewed as the best way to move forward."

THE WALL STREET JOURNAL

By JOSH DAWSEY

Updated Feb. 24, 2015 8:37 p.m. ET

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com