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How to Create a Public Pension Disaster.

By putting off dealing with its retirement-system underfunding problems, New Jersey has dug itself into a 'draconian' fiscal hole.

When government discovers a problem, addressing it can be difficult. But if state and local leaders put off dealing with the problem, difficult often becomes disastrous.

New Jersey provides the most recent proof of this simple truth. In the mid-1990s, the state started deferring payments to its pension plan, instead using the money to plug short-term budget holes. Predictably, the state's public-pension and retiree-health-benefits system is now the fourth most underfunded in the country.

Gov. Chris Christie and state legislators finally tried to address the issue in 2011. They enacted legislation under which the state would increase its pension contribution and state employees would pay more toward both their pensions and health benefits.

But by then the magnitude of the problem had grown exponentially. Last year, almost 20 years after the state began deferring pension payments, a bipartisan state commission pegged New Jersey's pension and health-care liability at \$90 billion — almost three times the annual state budget.

Last summer, just a few weeks before the commission released its estimate, state revenues were well below projections and New Jersey faced a \$2.7 billion shortfall. Gov. Christie responded during the final days of the 2014 fiscal year by cutting that year's pension payment from nearly \$1.6 billion to less than \$700 million. For fiscal 2015, what was supposed to be a state contribution of almost \$2.3 billion was again slashed to less than \$700 million. It was exactly what the 2011 law that Christie had signed was designed to prevent.

Public-employee unions sued to reverse both the fiscal 2014 and 2015 pension-payment cuts. Last June, Superior Court Judge Mary Jacobson allowed the 2014 cut to stand, finding that the state's revenue shortfall created a fiscal emergency. But last month the same judge ruled that the fiscal 2015 cut "substantially impaired" employees' contractual rights to payments guaranteed under the 2011 reforms.

Unless an appeal is successful, Christie and the legislature will have to find an additional \$1.57 billion in a \$32.5 billion budget. According to State Assembly Majority Leader Lou Greenwald, the resulting cuts would be "draconian."

New Jersey's plight raises many questions, such as why state revenues fell so far short of projections during relatively good economic times. But the headline here is that New Jersey faces a crisis that could easily have been avoided had elected officials acted to address the issue soon after the state started using pension payments to close budget shortfalls. It's all too easy to let difficult grow into disastrous, and the biggest victims are New Jersey's taxpayers and its government workers.

BY CHARLES CHIEPPO | MARCH 3, 2015

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