New Jersey's Top Court to Rule in High-Stakes Public Pension Case.

The New Jersey Supreme Court is expected to decide on Thursday whether the state's 2011 public pension reform improperly froze retirees' cost-of-living increases, a ruling that could cost the state billions of dollars.

Governor Chris Christie's administration suspended the so-called COLA payments, which are tied to inflation, as part of bi-partisan reforms aimed at curtailing the ballooning cost of public pensions.

Retired prosecutors challenged the provision, saying they have a contractual right to the adjustments, just as they do to their base pension payments.

If the retirees prevail, New Jersey's already underfunded pension system could be hit with another $17.5 billion of liabilities, according to The Record, a Bergen County newspaper, which cited a court filing.

New Jersey's roughly $83 billion pension system is as poorly funded as it has ever been. The state's aggregate funded ratio for all plans is 48.6 percent.

When including local government contributions, the overall system appears somewhat better funded at 59.5 percent, which is still far below the baseline 80 percent level considered healthy.

The court is expected to release its decision in the case, called Berg v. Christie, on Thursday, according to the court system's website.

Wall Street credit rating agencies rank New Jersey the second-worst U.S. state, behind only Illinois, in part because of its pension problems.

Some holders of New Jersey's roughly $37 billion of outstanding bonds are concerned about the impact the case could have on the state's fiscal condition.

For example, in April a Morgan Stanley wealth management director emailed Charles Ouslander, the retired prosecutor who petitioned the Supreme Court, to ask him about possible outcomes on behalf of the firm's retail clients who own New Jersey bonds, according to the email seen by Reuters.

Spreads on New Jersey 10-year bonds, which measure how much extra yield investors demand for riskier bonds, are a full percentage point higher than general top-rated municipal bonds, according to Municipal Market Data, a Thomson Reuters unit.

Another pressure on state finances could come from a ballot question Democrats hope to put before voters in November.

The constitutional amendment would require the state to fully fund its annual contributions to the retirement system, something it has not done since before Christie's tenure.

The state would need at least $2.8 billion of new taxes by 2022 to pay for the measure, according to a panel convened by Christie.

REUTERS

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(This version of the story corrects the name in paragraph four to Kramer instead of Parker.)