Your PENSION & BENEFITS njea

PENDING LEGISLATION
Questions & Answers

Q and A on Pension and Benefits Legislation

Q: What are these bills?

They are a package of three bills and a proposed constitutional amendment that seek to change pensions and benefits for current and new active and retired public employees, including NJEA members. The first, S-2, deals with changes to the pension system; the second, S-3, deals with changes to state health benefits; and the third, S-4, deals with an assortment of other issues, including sick leave buyouts and disability retirements.

Q: Who is behind them?

They are being promoted by Sen. Stephen Sweeney (D-Gloucester), and supported by Gov. Chris Christie.

Q: What would the pension bill do?

It seeks sweeping changes in the pension system:

requiring new school employees to work at least 32 hours per week to qualify for a defined benefit pension;

changing the benefit formula for new employees from N/55 to N/60 (where N=number of years of service);

changing the final average salary calculation for new employees from three to five highest years;

allowing only one job per new employee for pension purposes;

repealing the "non-forfeitable right" to pension benefits for all new employees;

allowing new employees or employees with less than 10 years of service credit to choose the state's Defined Contribution Plan (DCP) plan in place of the current defined benefit plans (PERS and TPAF)

Q: What is the definition of a "new employee"?

A "new" employee is defined as an employee who begins service after the effective date of the legislation, should it be enacted. Provisions in all the bills affecting new employees could also affect current employees if they leave the system and return after a break in service. In most situations, a break in service is considered two years or more, with no contributions to the pension system.

Q: Who is affected by the pension changes?

The bill would apply to all new employees. School employees already enrolled in the pension system would not see their pensions changed. Current school employees who have a break in service (see question above) would be treated as new employees when they returned to work.

Q: How would the 32-hour requirement affect new employees?

Some NJEA members work fewer than 32 hours. In addition, some elementary-level specialists (music, art, counselors, child study team members, etc.) are shared with other districts. The bill is unclear how they would be treated. But any new employee working less than 32 hours per week and earning more than $5,000 would only be eligible for a defined contribution plan.

Q: How would the change from N/55 to N/60 affect new employees?

Currently, pensions are calculated by taking a member's final average salary, multiplying it by the number of years worked and dividing it by 55. Changing 55 to 60 in that formula would result in an 8.33% decrease in new employees' pensions..

Q: How would changing the calculation of final average salary (FAS) from three years to five years affect new employees?

Currently, FAS is calculated by averaging a member's three highest salary years. This bill would change that to five years for new employees. The exact impact would be different for each member, but preliminary estimates indicate it would decrease pensions by about 2% on average.

Q: How would the "one job for a pension" rule affect new employees?

Some school employees hold more than one part-time position instead of a single full-time position. Those employees would only be able to collect a pension for one of those jobs, denying them the ability to earn the equivalent of a full-time pension for working the equivalent of a full-time job.

Q: What is the impact of repealing the "non-forfeitable right" to pensions for new employees?

The "non-forfeitable right" comes from a law which ensures that once an employee participates in the pension system for five years, his or her pension benefits cannot be reduced. Changing that law would pose a serious threat to new employees' pensions because the state would be able to change those pensions at any time in the future.

Q: What is the impact of allowing new members and members with fewer than 10 years in the pension system to opt in to the defined contribution retirement plan (DCRP)?

This change would be harmful to both current and future members of TPAF and PERS, and potentially very harmful to those employees who choose not to participate in PERS or TPAF. If a number of newer employees elect to go into the DCRP, it would further weaken TPAF and PERS, as less money would be coming in to pay required benefits. Also, <u>those employees who choose the DCRP would not be eligible for post-retirement health benefits</u>. Additionally, they would have no protection if the value of their investments dropped.

Q: What is the impact of mandatory state funding of the pension systems?

Theoretically, mandating that the state fully fund the pension systems is a good idea which would significantly strengthen those systems. In practice, however, the state is already required to fully fund the systems, but regularly ignores that requirement. It is unclear why that would change with a new law. Further, the law would allow the state to phase in funding very slowly, over seven years. That means there would be at least six more years of underfunding by the state, which would make the current funding situation even worse.

Q: What would the health benefits bill do?

It seeks sweeping changes for new and current active members in districts that participate in the School Employees' Health Benefits Program (SEHBP), as well as future retirees who are not already enrolled in PERS or TPAF and who will receive post-retirement medical benefits through the SEHBP. Among the changes are:

mandatory premium sharing (1.5% of salary) for all current active members in the SEHBP;

mandatory premium sharing (1.5% of pension) for new members of the pension system who retire after a minimum of 25 years of service;

25-hour minimum work week for new members to participate in SEHBP;

changes to SHBP would automatically apply to SEHBP;

limits on health insurance waivers;

no opportunity for duplicate coverage or coordination of benefits within state health insurance plans.

Q: How would mandatory premium sharing affect current members enrolled in the SEHBP?

The legislation mandates that all employees enrolled in the SEHBP pay 1.5% of base salary toward their health insurance premium. It would apply only at the end of a current collective bargaining agreement. It would NOT be subject to collective bargaining, but would simply be imposed. It would be in addition to any other premium sharing the parties negotiated.

Q: How would mandatory premium sharing in the SEHBP affect future retirees?

Current NJEA retirees in the SEHBP do not pay any portion of their health insurance premium. Active employees have also been promised a premium-free medical benefit in retirement. This legislation would end that promise for new employees. They would be required to pay 1.5% of their pension toward the cost of their medical insurance.

Q: How would the minimum work-week requirement affect new employees?

Currently, active employees must work at least 20 hours per week to quality for coverage under the SEHBP. That number can be negotiated higher in collective bargaining. This bill would set that number at a minimum of 25 hours for new employees to be eligible for health benefits.

Q: How would changes in the SHBP affect the SEHBP?

Under the legislation, changes to the SHBP (such as deductibles, coverage or plan offerings) negotiated by state workers would be automatically applied to all participants in all state health plans, including SEHBP. That would result in most changes to the SEHBP being controlled by negotiations with state workers, in which NJEA members have no voice.

Q: How would the change in the health insurance waiver affect employees?

Currently, boards of education have the right to offer employees a monetary incentive of up to 50% of the board's savings if the employee chooses to waive health insurance coverage. Under the bill, that incentive would be capped at 25% of savings or $5,000, whichever is lower. Interestingly, this provision could end up costing boards more money if lower incentives cause fewer employees to decline health insurance coverage.

Q: What is coordination of benefits, and what is the impact of losing that ability?

Currently, people who are covered under two different state plans (e.g. a member whose spouse is covered under his or her own job) can coordinate the benefits of both plans, which can lower out-of-pocket expenses for those members. This provision would prevent anyone from being covered under more than one state plan. It would affect both active and retired members who are currently eligible for coverage under more than one state plan.

Q: What does the third bill do?

The third bill proposes a number of changes to employee benefits, including:

limits on sick-leave buyouts for new employees at retirement;

limits on accumulation of vacation for new employees; and

termination of the disability retirement program for new employees.

Q: What impact would the limit on sick leave buyouts have on new employees?

The legislation proposes a $15,000 limit on sick leave buyouts for new employees, which could occur only at retirement. Currently that level is set in local negotiations, and while most contracts set it at or below $15,000, some set the amount higher.

Q: What impact would the limit on vacation leave accumulation have on new members?

Currently, employers can negotiate rules for how 12-month employees are allowed to accumulate vacation time. Under this proposal, new employees would be limited to rolling over only one year's worth of accumulated vacation, with very few exceptions.

Q: How would the termination of disability retirements affect members?

For new employees, the disability retirement program would be replaced by disability insurance. While in some cases members would benefit, since members currently do not qualify for disability retirement coverage until 10 years of service, in most cases the level of benefit would not be as good.