



News Release

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NEW JERSEY TAXPAYERS ORGANIZATION RELEASES NJ PENSION ANALYSIS RESULTS.

Randolph, NJ - June 23, 2009 - Today, the New Jersey Taxpayers Association released an analysis of NJ's public employee pension systems. (See Attached)

Neil Coleman, NJTA Vice President, who led the project, outlined the situation by stating, "New Jersey residents pay the **highest state and local taxes** in the country. There are many unfortunate reasons for this. However one of the largest contributing factors to this problem is the pension system for Public Employees. These plans consume an enormous share of the tax dollar."

Citing two typical examples:

- Teachers qualify for retirement when they reach age 60 (however the majority are still grandfathered at age 55 under N/55) or attain 25 years of service. Using the example of a 60 year old with 30 years service,
 - Total pension payments to this average retiree will be \$1.6 million!
- The average 50 year old Policeman or Fireman with 25 years of service is eligible for full retirement. Given current life expectancy,
 - Total pension payments to this average retiree will be \$3.2 million!

"That works out to about \$20,000 for every taxpayer in the state..." Coleman summed up.

Jerry Cantrell, President of the New Jersey Taxpayers Association, in his statement posed the question, “Where will the moneys come from to cover these commitments?” He further, questioned the lack of credibility in the administration that failed to pay into the retirement fund this year and is already indicating it won’t again next year in light of the already projected \$8.0 billion revenue shortfall for the FY11 budget.

“And the even larger problem is that the skipped payments compound into future years, much like skipping the mortgage payment, without taking into consideration there’s an even larger amount outstanding as a result. The leadership of this state seems to prefer to prolong the agony rather than deal with the problem head-on as they are elected to do.” Cantrell concluded.

To deal with New Jersey's crushing pension costs, the NJTA recommends several steps to transition the looming shortfalls into a viable and sustainable long-term solution. (See accompanying

The release of these findings is intended to positively add to the final round of dialog by the gubernatorial and NJ Assembly candidates as we approach the November 3, 2009 elections.

Taxpayers across the state should keep this information at the top of their priority list in determining whom to cast their votes for with an eye to supporting the candidate who possesses the best vision for the future.

About the New Jersey Taxpayers Association

The New Jersey Taxpayers Association is a nonpartisan statewide grass roots organization dedicated to achieving real and sustainable tax reform in New Jersey. The organization's efforts are aimed at improving the quality of life in New Jersey, for all its citizens, by holding our elected officials and administrators personally accountable for sound fiscal management of governmental institutions, organizations and precious tax dollars. The NJTA is committed to Excellence in Government while ensuring that elected officials are fulfilling their fiduciary responsibilities to the state and local institutions and the citizenry at large. For more information, or to become a member of NJTA, please visit our website www.njtaxes.org or contact Jerry Cantrell at 973.252.9274 or email jcantrell@njtaxes.org.



Fighting for New Jersey Tax Reform

October 15, 2009

New Jersey Public Employee Pensions - An Unsustainable Burden on Tax Payers

New Jersey residents pay the **highest state and local taxes** in the country. There are many unfortunate reasons for this. However one of the largest contributing factors to this problem is the pension system for Public Employees. These plans consume an enormous share of the tax dollar.

NJ Public Employee Pension formulas are mysterious to taxpayers, so we have provided an illustration to quantify these plans. The information is drawn from **non-partisan sources*** and provides a reasonable approximation of anticipated pension payments. These examples relate to the **Teachers Pension and Annuity Fund (TPAF)** and the **Police and Fireman's Retirement System (PFRS)**. **To compare these numbers to NJ Government Retirees in your area, click on the following link:** <http://php.app.com/njretire07>. (You may have to copy this link into your browser).

TPAF (Teachers Pension & Annuity Fund)

A Teacher qualifies for retirement when they reach age 60 (however the majority are still grandfathered at age 55 under N/55) or attain 25 years of service. This **example will assume a 60 year old with 30 years of service.**

The average salary for such an individual is approximately **\$90,000**.

That individual's pension payment will be **\$49,000 in the first year** of retirement.

That individual's pension payment will be **\$62,000 in the 10th year** of retirement.

That individual's pension payment will be **\$83,000 in the 22nd year** of retirement (that is the average life expectancy for today's 60 year old).

Total pension payments to this average retiree will be \$1.6 million.

This example assumes a relatively low cost of living adjustment of 2.4%. If future inflation increases, the pension payments to the average retiree would increase dramatically. **A 6% cost of living adjustment would result in over \$2.5 million in pension payments per retiree.**

Many public employees are also eligible to receive Social Security Retirement payments. Such payments would be in addition to the payments listed above. This means they will likely **receive more money in annual pension payments at age 67 than they made while working.**

PFRS (Police & Fireman's Retirement System)

The **average 50 year old Policeman or Fireman with 25 years of service** is eligible for full retirement.

The average salary for such an individual is **\$105,000** (that does not include over-time).

That individual's pension payment will be **\$68,000 in the first year** of retirement.

That individual's pension payment will be **\$82,000 in the 10th year** of retirement.

That individual's pension payment will be **\$129,000 in the 29th year** of retirement (that is the average life expectancy for today's 50 year old).

Total pension payments to this average retiree will be \$3.2 million.

This example assumes a relatively low cost of living adjustment of 2.4%. If future inflation increases, the pension payments to the average retiree would increase dramatically. **A 6% cost of living adjustment would result in over \$6 million in pension payments per retiree.**

Many public employees are also eligible to receive Social Security Retirement payments. Such payments would be in addition to the payments listed above. This means they will likely **receive more money in annual pension payments at age 67 than they made while working.**

The above illustration is intended to provide some clarity about Public employee pensions in general. It is not intended to single out any particular occupation. Many public employees do important work that deserves respect and fair compensation. However, **these pension plans do not meet two important criteria:**

Fairness - The average Public employee already receives salaries, health benefits, and job security that are **superior to the average New Jersey taxpayer.** Because the **average taxpayer does not have a generous pension plan**, that individual must somehow save and invest to provide for his own retirement. It is unfair to complicate that difficult task by further increasing taxes and decreasing services in order to perpetuate these extremely generous plans. .

The Math does not work - Public employee pension plans were designed decades ago when life expectancies were shorter, private sector payroll growth was robust, and there were comparatively few public employee retirees in relation to the number of actively employed tax payers. This is no longer the case. **Total NJ Pension Participants exceed 750,000 individuals. This is equal to about 9% of NJ's total population or 14% of NJ's working age (18 to 65) population.** Private sector growth in New Jersey is anemic due in part to a weak value proposition to the tax payer (i.e. escalating taxes and declining services). Talented people and promising businesses migrate to states that offer a better value to the tax payer. New Jersey's public employee pensions are under funded by billions of dollars which means there is going to be huge political pressure applied by Public Employees and Retirees to yet again increase taxes on the residents of New Jersey. However, that will simply be a stall tactic. The math will not work over the long term. **There are too many employees and retirees in the current pension plans, the benefits are too generous, and there are too few tax payers with enough income to support these pensions. The New Jersey Pension Plans are under funded by roughly \$50 billion (some studies and assumptions put the real liability at substantially higher levels).** Therefore, on average, **every NJ taxpayer will be required to pay more than \$20,000** to continue these pension benefits in addition to current tax rates. For each day that passes in which these plans are not modified, that tax burden will grow.

Sensible reforms that honor commitments to current employees and retirees are needed. The following are a few ideas to consider. **First, transition new hires to a 401K type retirement plan.** This type of plan **already exists** in NJ and is used by about 23,000 plan participants. This plan is called the **Alternative Benefits Plan (ABP).** **Secondly** allow current employees with relatively short service to lock in the benefits they have already earned yet **convert to 401k format for future years of service.** **Thirdly,** all employees who continue to earn benefits in the current system should

significantly increase their payroll contributions toward the plan. **Current employee contribution rates cover only a small fraction of the program's benefits (well below 10%).**

Such changes would set a better path for the future and would still preserve government employment as an attractive career option for talented people. It would also free up enough tax dollars to provide valuable services the residents of New Jersey could enjoy and perhaps once again make our state a place where highly motivated young people want to come to build their life.

* Office of Legislative Services - NJ Pension Plan Summary Documents and 2008 Actuarial Studies by Milliman and Buck Consulting.

For further information about **NJTA**, click on our website links above or go to www.njtaxes.org.