March 27, 2018

Re: Bill to Transfer of PFRS to a Labor-Management Board on Governor's Desk
Time Sensitive

Dear Mayor:

Yesterday, March 26, both the Assembly and Senate passed S-5/A-3671, which transfers the management of Police and Fire Retirement System (PFRS) to a Board of Trustees of PFRS. The vote in the Senate was 34-2, with Senators O'Scanlon and Doherty voting no. In the Assembly the vote was 67-2-7, with Assemblywoman Handlin and Assemblyman Thomson voting no. In voting in support of the legislation, some legislatures argued that the bill provides greater protection for both taxpayers and employees, as the Board would have a fiduciary responsibility to PFRS members and the primary obligation of the board is to direct policies and investments to achieve and maintain the full funding and continuation of the system. We respectfully disagree with this sentiment.

As reported in numerous news accounts, while the Senate and Assembly passed the legislation, Governor Murphy's office has expressed some concerns with the bill. Acting State Treasurer Muoio noted that she anticipates the Governor will be looking closely at how the bill would impact some of the overall pension system's investments. Muoio stated that "We need to evaluate; some of those assets that are in those funds are not liquid, and the fact that we may have to liquidate them could end up costing all of the funds a significant amount of money, and we have a fiduciary duty to sort of look after all of our pension funds."

As we have previously reported, this legislation would disproportionately shift control of the PFRS, from balanced labor-management control, to a union-dominated (7-5) decision-making structure with the taxpayer still assuming the risks. In 2018, property taxpayers will finance over 73.0% of PFRS in 2018, while PFRS members will pay 27.0%.

Please contact Governor Murphy at (609)-292-6000 expressing opposition to this bill until it is amended to add the necessary safeguards advocated by the League, the Conference of Mayors (NJCM), and the Association of Counties (NJAC.) Please see these recommendations below.

The League, NJCM, and NJAC, opposes the bill and have advanced the following taxpayer-friendly changes that will serve to protect the long-term health and viability of PFRS as well as establishing critical safeguards that require the new Board of Trustees to manage valuable property-taxpayers' dollars in an effective and efficient manner. Our amendments would:

- Create a 15-member PFRS Board of Trustees comprised of an equal number of labor and management representatives with one independent member;
- Authorize the League and Association of Counties to make direct management appointments to the new Board of Trustees as is the case for the labor representatives;
- Prohibit the new Board of Trustees from enhancing member benefits until the system achieves a target funded ratio of 80% as required under current law;

- Require a supermajority of the full membership of the new Board of Trustees to enhance members benefits, and only after the system achieves a target funded ratio of 80%; and
- Establish a mandatory retirement age.

Given the inaction on extending the 2% cap on binding interest arbitration awards, the sun-setting of employee health benefit controls implemented under Chapter 78, the restricting of SALT deductions on federal income taxes, and the long-term ramifications of enacting this legislation, without the recommended safeguards, municipal and county leaders fear they are facing a perfect storm of uncontrollable property tax growth and substantial service cuts. Funded entirely by property taxpayer dollars, municipal and county governments will spend an estimated $913.0 million in 2018 to subsidize the Police and Firemen's Retirement System (PFRS), while PFRS members will contribute approximately $334.0 million to the defined benefit plan.

We further suggest that if the Legislature and Governor fail to amend the measure accordingly, then PFRS must be changed to a defined contribution plan where employees make greater contributions and assume a greater risk of loss as is the case with 401(k) investments.

PFRS is not like a 401K. Rather, it is a defined benefit program, in which the employers are responsible for any shortfall in funding. Employees' contribution rates are capped by statute at 10% of their salary while the employers' contribution rates are based on the funds needs and performance, based on actuarial reports. Currently, that requires local employers to contribute 27.35% of the employees' salary.

As a result of this current contribution structure, any shortfall, due to a downturn in the economy, mismanagement of fund assets, or any enhancement in benefits ordered by the labor-controlled board, will be borne by property taxpayers.

Please contact the Governor's office at (609)-292-6000 as soon as possible to express your opposition to S-5/A-3671.

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Sincerely,

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Executive Director