



New Jersey Has Modest Public Pension Benefits

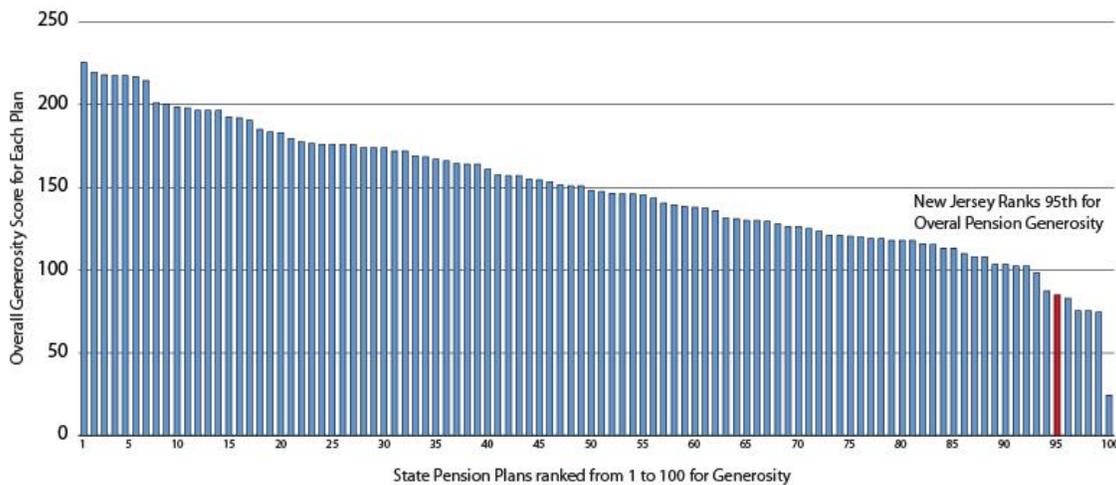
Garden State Ranks 95th in Pension Generosity Out of 100 Top Plans Nationally

By Stephen Herzenberg¹

While one of the central tenets of repeated calls for major changes to New Jersey’s public pension system is the claim that public employee pensions are overly generous, retirement benefits for the state’s public workers are already among the least generous of all large public-sector pensions in the country, in part because of cuts enacted in the pension reforms of 2011.

In fact, New Jersey ranks 95th in pension generosity among the country’s 100 largest plans.

Figure 1. New Jersey Ranks 95th Out of Top 100 State Pension Plans for Overall Generosity



Source: Keystone Research Center based on National Association of State Retirement Administrator (NASRA) Public Plan Database; online at <http://www.publicfundsurvey.org/publicfundsurvey/index.htm>

To arrive at a ranking for each plan, we measured three key dimensions of pension generosity: whether the plans offer inflation protection to retirees, how benefits are calculated and the amount employees contribute to their own retirement plans. (For the full methodology, see Appendix A.)

Here’s how New Jersey gets its low ranking for overall generosity:

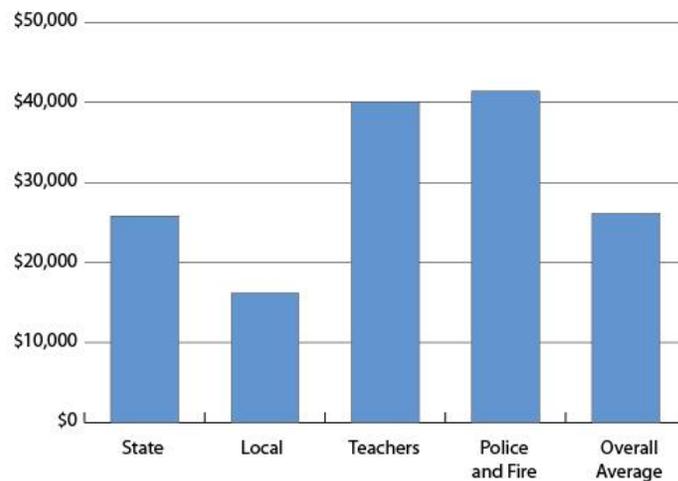
- **New Jersey retirees have no automatic protection against inflation.** While 69 of the 100 largest plans offer retirees some inflation protection, cost-of-living adjustments for New Jersey retirees were suspended indefinitely by the 2011 legislative pension reforms.

- New Jersey uses a very low multiplier.** The percentage by which New Jersey calculates state pensions per year of service – known as the multiplier – is among the lowest nationally, at 1.67 percent. This means pensions benefits equal 1.67 percent of final salary multiplied by the number of years of service; 1.67 percent is a lower multiplier than all but 21 of the 100 plans. New Jersey lowered the multiplier from 1.81 percent in 2011.
- New Jersey employees pay more into the system than those in most other systems.** New Jersey public employees contribute 6.93 percent of their salaries to their own pensions, more than 55 other plans in the top 100. By 2018, the employee contribution level for New Jersey pensions will rise to 7.5 percent, which is more than employees contribute today in about two-thirds of the top 100 plans.

In addition to being some of the least generous pensions in the country, New Jersey’s pensions are modest in dollar amounts, even though the Garden State remains one of the highest-cost states in which to live.

Pension benefits in New Jersey average \$26,000. State employees receive \$25,000 on average and local government employees about \$16,000. Teacher pensions average \$40,000.² While police and fire personnel receive higher average benefits, their benefits are inflated by comparison with other groups (both public and private) because New Jersey police and fire retirees *do not* receive Social Security. Correcting for this brings safety personnel average benefits down to \$41,402.

Figure 2. New Jersey Pension Benefits Average \$26,000



Note. New Jersey Police and Fire Retirement System members do not participate in Social Security, unlike the other systems shown. Police and Fire benefits have therefore been modified to exclude an estimate of Social Security benefits that system members would receive if they participated in Social Security. With this adjustment, the chart shows an "apples to apples" comparison of benefit levels across the four systems.

Source: Division of Pensions and Benefits, State of New Jersey, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013, "Statistical Section," p. 295, online at <http://www.state.nj.us/treasury/pensions/annrprts.shtml>

Lastly, overall compensation for New Jersey's public-sector workers is comparable to the state's private-sector workers. Total annual compensation is 4.1 percent lower for public employees than for comparable private employees (with similar levels of education and other characteristics), according to a 2010 study by Professor Jeffrey Keefe of Rutgers University's School of Management and Labor Relations.³ The study confirmed that benefits are indeed higher for public employees than for comparable private employees, but found that public wages and salaries are lower by a more than offsetting amount, with the result that overall public-sector compensation slightly trails that in the private sector. There's a reason people never say, "I'm leaving the private sector to go and make more money."

The Real Pension Problem? The State's Failure to Contribute

New Jersey's real pension problem is lack of employer contributions, not overly generous retirement benefits.

The source of New Jersey's unfunded pension liabilities is the state's persistent failure to make annual required contribution payments. New Jersey ranks *last* among the 50 states – by a large margin – for the share of required pension contributions actually made since the early 2000s.⁴ Gov. Christie exacerbated New Jersey's worst-in-the-nation ranking in the last budget when he line-item vetoed \$900 million in pension contributions and announced plans to short pensions by nearly \$2.5 billion in the 2014 and 2015 budgets combined. This veto was unnecessary as well as imprudent because the Legislature had found a way to raise the needed revenue without burdening New Jersey's middle class.

In sum, New Jersey's pension benefits are not more generous than most other large plans, no matter the standard of comparison. What is out of line is New Jersey's 50th-place ranking when it comes to making required employer pension contributions. Chronic underfunding is the primary reason New Jersey has an \$83 billion unfunded pension liability. Solving New Jersey's self-inflicted pension crisis requires the state to obey the law by contributing its legally obligated share.

Appendix A: Methodology

For this analysis, we combined New Jersey’s two biggest pension plans (the plans for teachers and for state/local government employees) with the 99 other largest pension plans for non-public safety personnel in a national state pension database.⁵ This database is maintained by the National Association of State Retirement Administrators (NASRA) and accessible online at <http://www.publicfundsurvey.org/www/publicfundsurvey/normalretirementprovisions.asp>.

To rank each pension plan’s overall generosity, we first compare our 100 largest state pension plans on three separate measures of pension generosity:

- The strength of their automatic inflation protection (assuming 2.5 percent inflation).
- The amount by which pensions increase with each additional year of public service as a percentage of “final average salary,” an amount commonly referred to as “the multiplier.” (Final average salary is usually calculated as the average salary over the final three or five years of an individual’s public service.)
- The amount employees contribute to their own pensions. When employees contribute less, we consider their pension more generous.

Overall generosity is determined by giving each pension plan a score out of 100 based on its rank on these three separate dimensions of pension generosity. A pension plan ranked first on one of the dimensions receives 100 points, a pension plan ranked 100th receives one point.

Adding up the three ranks generates the plan’s overall generosity score. The 1st-place-ranked and most generous pension plan received an overall score of 225.5. The least generous pension plan by far, with a score of 24.5, covers municipal employees in California’s Contra Costa County. The pension plan ranked 99th, the New Hampshire Retirement System, received an overall generosity score of 74.5, not far below New Jersey’s 85.

Endnotes

¹ Stephen Herzenberg, Ph.D., is an economist and the Executive Director of the Keystone Research Center.

² The New Jersey Pension and Health Benefit Study Commission reports higher benefit levels because it reports the average for new retirees and it does not adjust police and fire benefits to take account of the fact that members do not participate in Social Security. See *Truth and Consequence: Status Report of the New Jersey Pension and Health Benefit Study Commission*, September 2014, <http://www.state.nj.us/treasury/pdf/NJPHBSC.pdf>

³ Economic Policy Institute, *Fact Sheet: New Jersey Public-Sector Workers Are Undercompensated Compared with Private-Sector Counterparts*, February 2011, <http://www.epi.org/publication/bp270/> and *Are New Jersey Public Employees Overpaid? July 2010*, <http://www.epi.org/publication/bp270/>

⁴ New Jersey Policy Perspective and Keystone Research Center, *How to Dig an Even Deeper Pension Hole*, September 2014, <http://www.njpp.org/reports/how-to-dig-an-even-deeper-pension-hole>

⁵ We exclude pension plans for safety employees such as police and fire, because these employee groups have more generous benefits in New Jersey and in most other states. Our estimates of the generosity of New Jersey's pension plans are conservative in the following sense: in comparing other pensions to New Jersey's pensions for teachers and state/local employees, if there was ambiguity in the generosity of other state pension plans compared to New Jerseys, we erred on the side of recording the other states' systems as less generous.