



## PENSION AND HEALTH BENEFITS REFORM UNDER CHAPTER 78, P.L. 2011

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### ABOUT CHAPTER 78, P.L. 2011

Governor Christie signed Chapter 78, P.L. 2011 into law, effective June 28, 2011. This law provides for changes to the manner in which the State-administered retirement systems\* operate and to the benefit provisions of those systems. The law also changes the manner in which the State-administered Health Benefits Programs\* operate and the employee contribution and benefit provisions of those programs.

The Division of Pensions and Benefits is in the process of implementing the provisions of Chapter 78, and will post information and links to this page as they become available. Please check back, for the most recent updates.

- **Chapter 78, P.L. 2011** — [Synopsis](#) — [Full text](#) Adobe PDF (34K)  
(Amended by [Chapter 79, P.L. 2011](#))
- **Pension Certifying Officer Letters**
  - [Contribution Rate Changes Under Chapter 78, P.L. 2011](#) (July 1, 2011 — For Local Government and Local Education Employers)
  - [Contribution Rate Changes Under Chapter 78, P.L. 2011](#) (July 1, 2011 — For Employers with State Centralized Payroll)
  - [Pension Changes for the Public Employees' Retirement System and Teachers' Pension and Annuity Fund](#) (July 14, 2011)
  - [Pension Changes for the Police and Firemen's Retirement System](#) (July 14, 2011)
  - [Pension Changes for the State Police Retirement System](#) (July 14, 2011)
  - [Pension Changes for the Judicial Retirement System](#) (July 14, 2011)
- **Health Benefits Reform** [Frequently Asked Questions](#)
  - [Health Benefits Contribution Calculators and Worksheets](#) - **NEW!**
- **Guidance for Local Employers**
  - [Local Finance Notice 2011-20](#) (Word Document) — from the Department of Community Affairs, Division of Local Government Services (July 25, 2011)

\***Retirement systems include** the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), State Police Retirement System (SPRS), and Judicial Retirement System (JRS). **Health Benefit Programs include** the State Health Benefits Program (SHBP) and School Employees' Health Benefits Program (SEHBP).

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## PENSION REFORM PROVISIONS

[PERS](#) | [TPAF](#) | [PFERS](#) | [SPRS](#) | [JRS](#) | [All Funds](#)

The following is an outline of the major pension provisions of Chapter 78, P.L. 2011.  
For details please see [the law](#) and the Division's Certifying Officer Letters.

### Public Employees' Retirement System (PERS)

- **The PERS employee pension contribution rate** is increased from 5.5% to **6.5%** of salary. An additional increase to be phased over the next 7 years will bring the total pension contribution rate to **7.5%** of salary.

The initial increase is effective with Pay Period #21 (October 14, 2011 check date) for State employees paid through the State Centralized Payroll Unit, and with the first payroll check to be paid *on or after* October 1, 2011, for all other employees. The phased increase from 6.5% to **7.5%** will be applied equally over a 7-year period beginning July 2012. The contribution rate will increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018. **For example**, 6.64% in July 2012, 6.78% in July 2013, 6.92% in July 2014, etc. The final increase in July 2018 will be 0.16% to reach 7.5%.

- **For PERS Prosecutors Part members** the employee pension contribution rate is increased from 8.5% to **10%** of salary. This increase is effective in total with Pay Period #21 (October 14, 2011 check date) for State employees paid through the State Centralized Payroll Unit, and with the first payroll check to be paid *on or after* October 1, 2011, for all other Prosecutors Part members.
- **Tier 5 Membership** — A new tier of PERS membership is created for employees enrolled *on or after* June 28, 2011. The following changes were made to *retirement* benefits for PERS Tier 5 members:

**Service and Deferred Retirement** — The Tier 5 Service or Deferred Retirement age is increased to **age 65**.

**Early Retirement** — Available to Tier 5 members with *at least 30 years* of service credit. The Early Retirement benefit is permanently reduced by **3%** for each year the Tier 5 member is *under* age **65** at the time of retirement.

**Note:** The Retirement Formula, Final Average Salary, maximum work hours for Enrollment, and other provisions of PERS Tier 5 membership are unchanged from those of PERS Tier 4 membership — as established under Chapters 1 and 3, P.L. 2010.

Learn more about [PERS Membership Tiers](#) Adobe PDF (38K)

### Teachers' Pension and Annuity Fund (TPAF)

- **The TPAF employee pension contribution rate** is increased from 5.5% to **6.5%** of salary. An additional increase to be phased over the next 7 years will bring the total pension contribution rate to **7.5%** of salary.

The initial increase is effective with the first payroll check to be paid *on or after* October 1, 2011 (or for State employees paid through the State Centralized Payroll Unit, Pay Period #21, the October 14, 2011 check date). The phased increase from 6.5% to **7.5%** will be applied equally over a 7-year period beginning July 2012. The contribution rate will increase by 0.14%

each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018. **For example**, 6.64% in July 2012, 6.78% in July 2013, 6.92% in July 2014, etc. The final increase in July 2018 will be 0.16% to reach 7.5%.

- **Tier 5 Membership** — A new tier of TPAF membership is created for employees enrolled *on or after* June 28, 2011. The following changes were made to *retirement* benefits for TPAF Tier 5 members:

**Service and Deferred Retirement** — The Tier 5 Service or Deferred Retirement age is increased to **age 65**.

**Early Retirement** — Available to Tier 5 members with *at least 30 years* of service credit. The Early Retirement benefit is permanently reduced by **3%** for each year the Tier 5 member is *under* age **65** at the time of retirement.

**Note:** The Retirement Formula, Final Average Salary, maximum work hours for Enrollment, and other provisions of TPAF Tier 5 membership are unchanged from those of TPAF Tier 4 membership — as established under Chapters 1 and 3, P.L. 2010.

Learn more about [TPAF Membership Tiers](#) Adobe PDF (38K)

### Police and Firemen's Retirement System (PFRS)

- **The PFRS employee pension contribution rate** is increased from 8.5% to **10%** of salary. This increase is effective in total with the first payroll check to be paid *on or after* October 1, 2011 (or for State employees paid through the State Centralized Payroll Unit, Pay Period #21, the October 14, 2011 check date).
- **Tier 3 Membership** — A new tier of PFRS membership is created for employees enrolled *after* June 28, 2011. The following change was made to *retirement* benefits for PFRS Tier 3 members:

**Special Retirement** — The benefit calculation for a PFRS Tier 3 Special Retirement is changed to **60%** of Final Compensation for 25 years of service **plus 1%** of Final Compensation for each year of creditable service over 25 years but not to exceed 30 years. The *maximum* Tier 3 benefit is therefore **65%** of Final Compensation.

**Note:** Final Compensation for PFRS Tier 3 membership is unchanged from the *average annual compensation* for **any three fiscal years** of PFRS Tier 2 membership — as established under Chapters 1, P.L. 2010.

Learn more about [PFRS Membership Tiers](#) Adobe PDF (25K)

### State Police Retirement System (SPRS)

- **The SPRS employee pension contribution rate** is increased from 7.5% to **9%** of salary. This increase is effective in total with the State Centralized Payroll Unit's Pay Period #21 (October 14, 2011 check date).

### Judicial Retirement System (JRS)

- **For JRS members** the employee pension contribution rate will see a phased increase of an *additional 9%* of salary over 7 years beginning October 2011. The contribution rate will increase by 1.28% each year with the first payroll of July until the additional 9% contribution rate is reached in July 2017.

## All Retirement Systems

- **Pension Committees to be established** — When a "target funded ratio" for the retirement system, or part of the retirement system is achieved, eight-member pension committees for State PERS; Local PERS; TPAF; and the SPRS. or 10-member pension committees for the State PFRS and Local PFRS will be established.

Half of the members of each committee will be appointed by the Governor to represent public employers and half appointed by certain unions whose members are in the retirement system. When the "target funded ratio" for the system or part of the system is achieved, each committee will have the discretionary authority to modify, by duly promulgated regulations, the: member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance (PERS and TPAF); age at which a member may be eligible and the benefits for service or early retirement; and benefits provided for disability retirement. A committee will not have authority to change the number of years required for vesting.

- **Cost-of-Living Adjustments (COLA) are suspended** for all current and future retirees of all retirement systems. No further COLA increases will be granted, however, **the provision *does not reduce any benefit for COLA increases that were already made to retiree benefits* prior to the effective date of the law. The amount of money retirees currently receive each month will not be reduced by this law.**

Chapter 78 provides for the establishment of Pension Committees which may consider reinstating the COLA when the retirement system reaches a "target funded ratio" established by the law. At that time, the Pension Committees are to give the reactivation of the COLA priority consideration.

"Target funded ratio" means a ratio of the value of assets against the accrued liabilities of 75% and increasing annually by equal increments over seven fiscal years to a ratio of 80%.

## HEALTH BENEFIT REFORM PROVISIONS

The following is an outline of the major health benefit provisions of Chapter 78, P.L. 2011.  
For details please see [the law](#) and the [Frequently Asked Questions](#) page.

### State Health Benefits Program (SHBP) and School Employees' Health Benefits Program (SEHBP)

- **Sets new health benefit contribution amounts** towards the cost of employee coverage. All public employees will be required to contribute a certain percentage of their health benefit premiums. The percentage rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period with a minimum contribution required to be *at least* 1.5% of salary.

*Percentage of Premium Charts* are listed on the [Frequently Asked Questions](#) page.

[Health Benefit Contribution Calculators and Worksheets](#) are now available.

- **Contributions toward health benefits in retirement** will be based on the provisions of the law and the member's attainment of 25 years of service credit after the effective date of the law.
- **Establishes a 12-member Plan Design Committee** for the SHBP. The SHBP Plan Design Committee will provide several plan options for each level of coverage, in addition to a high

deductible health plan (HDHP) that satisfies the requirements under section 223 of the Internal Revenue Code, beginning January 1, 2012. The SHBP Plan Design Committee will also set SHBP copayment, deductible, and other participant costs beginning January 1, 2012.

- **Establishes a 6-member Plan Design Committee** for the SEHBP. The SEHBP Plan Design Committee will provide several plan options for each level of coverage, in addition to a high deductible health plan (HDHP) that satisfies the requirements under section 223 of the Internal Revenue Code, beginning January 1, 2012. The SEHBP Plan Design Committee will also set SEHBP copayment, deductible, and other participant costs beginning January 1, 2012.
- **Requires all public employers, including local government employers and boards of education**, to establish a flexible spending arrangement (FSA) that satisfies the requirements under Section 125 of the Internal Revenue Code for reimbursement of medical and dental plan participant costs.

**Note:** The State's Section 125 plan, Tax\$ave, is **not** available to local government or local education employers. These employers must arrange and provide their own Section 125 plans.

- **Additional guidance for local employers** — including those who are **not** in the SHBP/SEHBP — is available from the Department of Community Affairs, Division of Local Government Services. See [Local Finance Notice 2011-20](#) (Word Document)

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