

# FUNDING THE PENSION SYSTEMS:

## What you need to know as we fight together to save our pensions

**You may have heard that NJEA has met with the governor's pension commission to talk about ways to keep the pension system solvent. While these discussions are important, NJEA will always fight for the legally required funding. That's why we are in court. This Q&A will explain what you need to know about why and how we must fight to compel the governor and the Legislature to follow the law and fund the pensions.**

**Priority  
#1**

### **What is NJEA's position on the full funding of our current pension system?**

Full funding of the current pension system is NJEA's number one priority. In 2011, a new law known as Chapter 78 increased employee contributions to the pension system and reduced benefits, but it also created a contractual right to the state's share of the pension funding. By enacting that law, the governor and the Legislature made a promise that they would not repeat the sins of the past and committed themselves to follow a payment schedule that would ensure full funding of the pension systems over the course of seven years. That promise has been broken and our pension system is in jeopardy. It is our job—**all 200,000 of us**—to demand that our elected officials keep the promise by fully funding the pension system so that our members will receive the benefits they were promised and that they have earned.

### **NJEA and other public employee unions are suing the state to compel funding of the pension system. If the courts rule that the state must fund the pension systems according to Chapter 78, won't our fight be over?**

We cannot rely on lawsuits alone. Lawsuits take a long time to make their way through the courts, and there is no guarantee of a favorable decision. Even with a favorable decision, laws are often amended in response to court decisions. We can't rely on the courts to compel Gov. Christie and legislators to fund their obligations under Chapter 78. We must compel them to follow their own law by creating political pressure. We must demand that our lawmakers identify and appropriate the revenue necessary to restore the health of the pension systems.

### **We seem to always be fighting to protect the pensions we've earned. What makes this fight different?**

Ch. 78 gave NJEA and other public employee union members a contractual right to the funding of the pension system. But coming after more than 15 years of little to no state contributions to the pension system, the size of the state contribution required to restore the health of the pension system is greater than ever. "Kicking the can down the road" is no longer an option if we are serious about preserving our pensions and the pensions of those who come after us.

### **Is the pension situation as critical as everyone is making it out to be?**

Yes. While members have made their contributions paycheck after paycheck, current and past governors and legislatures have ignored their obligation to fully fund the system for more than 15 years. The need for funding is greater now than it has ever been, and grows every year we wait for a full payment from the state into the pension systems.



### **What can the courts do to force the state to fund the pension systems?**

NJEA currently has multiple lawsuits pending over the state's failure to fund pensions. On Feb. 23, 2015, Superior Court Judge Mary Jacobson issued a ruling that members of the pension systems have a contractual right to the funding mandated by Ch. 78. That decision, however, does not order a specific funding remedy, other than requiring the Legislature and governor to follow the law.

Unfortunately, the governor has indicated he plans to appeal the decision, and such appeals could take several months before a final resolution is reached. During that time, our already damaged pension systems will become even more poorly funded.

***It's time we make the governor and the Legislature obey the law.***

### **Where in the existing state budget can money be found to fund the pension?**

In the Fiscal Year 2016 budget proposed by Gov. Christie, there is little room to spare. The projected "rainy day" fund balance of \$350 million is at its lowest level ever, far below what should be held in reserve for emergencies.

The governor's proposed budget pits NJEA members and other public employees against funding for schools, colleges, universities, hospitals, other government institutions, Medicaid, food stamps, mental health services, salaries and benefits of public employees, road maintenance, public transportation, payments to bond holders, debt service, and aid to municipal and county governments. No single source of spending in the governor's proposed budget could be easily reallocated to fund the pension according to the requirements of Ch. 78.

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## What about raising taxes?

The Christie administration has neglected the revenue side of the budget to the benefit of the wealthy and to the detriment of the middle class and working poor.

Corporations could be assessed a tax surcharge, possibly for a limited number of years. The “millionaires’ tax” could be reinstated. New Jersey also has one of the lowest gasoline taxes in the nation and could generate some additional revenue with a modest increase. While in recent years the Legislature has passed legislation to raise some of these taxes, Gov. Christie has vetoed them every time. Though there were several attempts, the Legislature has **NEVER** overridden Gov. Christie.

## What about ending corporate tax breaks & ending tax loopholes for higher incomes?

Corporate incentives and subsidies have failed to produce sustained economic development. Instead, these subsidies and incentives have diverted billions of dollars in tax revenue away from the state.

We expect the Legislature to target these programs to generate funding for the pension system. However, this alone will not provide all of the funding necessary. A combination of sources will be necessary in order for the state to appropriate the full payment. Once again, Gov. Christie is likely to veto such measures. A serious effort will be necessary to garner the super-majority of votes required to override the governor’s veto. The Legislature has never successfully overridden this governor.

## What if the funding formula in Ch. 78 is changed from full funding in seven years to full funding in 10 years?

Ch. 78 increases the state’s contribution to full funding over a seven-year period that began in 2012 and was scheduled to conclude with full funding in 2018. Changing the ramp-up to full funding from seven to 10 years will work if the state makes the scheduled payments, however the longer the ramp-up period the higher the payments will be.

NJEA does not want the state to keep moving the funding target and never hit it. That’s why we must fight for funding: payments increasing by sevenths or tenths aren’t the issue. **Payments** by the state into the pension funds **are the issue.**

## What if a sixth tier was added for new school board/public employees?

As the state diminished pension benefits for new employees over the years, teachers and other public workers were divided into tiers based on when they were hired. Those with more experience were grandfathered by being placed in a tier that preserved the value of their pension benefits at the time they were hired. Adding another tier only reduces the benefits for yet-to-be vested employees and does nothing to reduce the unfunded liability—just as applying for a new credit card does nothing to erase already accrued debt. The state has tried this four times in the past, leaving us with five tiers but no positive impact on the unfunded liability. The problem with the pension system is not how to pay for future accrual; the problem is paying for the years that the state underfunded the systems.

## Can the state sell bonds to cover the unfunded liability?

Bonding is an accepted method of generating revenue, but during this administration three major rating agencies have dropped the state’s bond rating a total of eight times. The state already has almost \$44 billion in outstanding bonded debt. The issuance of bonds to fund the state’s pension liability was a tactic during the Whitman administration that led to the current state of affairs. Additional bonding is not a prudent solution to this problem.

## If New Jersey’s economy dramatically improves, won’t this crisis end?

Improvement in the state’s economy could go a long way toward alleviating the pension crisis, but New Jersey has lagged far behind other states in recovery since the Great Recession. The state has yet to experience anything approaching pre-recession growth. Moreover, to restore the health of the pension system the state’s economy would have to grow substantially, and all of the revenue realized as a result of that growth would have to be invested in the pension systems. Relying solely on an improving economy is too risky. A combination of funding sources will likely be necessary in order for the state to appropriate a full payment.

## Can the federal government step in and bail out the pension systems?

So far, the federal government has not bailed out any state pension system. While New Jersey’s pension crisis is one of the worst in the country, it is not the only state to underfund its pension systems. However, the average state pays 84.4 percent of its required contribution, and all but six states paid at least 75 percent of their required contributions. New Jersey is one of two states that paid less than half of its required contribution, as reported by the National Association of State Retirement Administrators.



## What can I do to help fight for full funding of the pension system?

Become a Pension Activist to help educate and mobilize our 200,000 members. Sign up at [njea.org/fullcourtpress](http://njea.org/fullcourtpress).

Keep yourself informed about the issue and learn about actions you can take by texting “**PENSION**” to **738674** and regularly checking [njea.org](http://njea.org).

Contact your legislators and remind them of their obligation under Ch. 78 to fund our pensions.

**Encourage your colleagues to do the same.**

