

PFRS Pension Holidays and Local Governments

“They Saved, We Suffer”

From 1998 to 2007, local governments were given an unprecedented and lucrative opportunity to skip or reduce their required payments into the Police and Firemen's Retirement System (PFRS). At the height of the Pension Holiday from 2001 to 2004, local governments contributed only 12% of their required PFRS pension and ERI contributions. This lack of funding not only crippled the health of the PFRS today but also has placed local governments in the situation of having to make up for this reckless practice now, much like the person who overspends on a credit card and who regrets it only when the bill arrives.

Now rather than admit they misspent the “savings” from skipping required pension contributions, local governments are threatening layoffs and mergers of police departments. This argument is not only irresponsible but dangerous for public safety. The position of local governments that PFRS pensions and police salaries are the cause of rising property taxes must be challenged and it is critical that PBA members be properly educated on the facts of why local governments are paying higher PFRS contributions today and what it all means to the health of the pension system and local taxpayers.

Legislative History

The local government PFRS Pension Holiday was not a onetime occurrence. In fact, four separate acts of the Legislature took advantage of both excess pension assets and local government complaints about PFRS pension payments:

P.L. 1997, Chapter 115

A companion the Whitman “Pension Bond” law, Chapter 115 changed the way assets in the pension system were recognized therefore increasing its value. Excess assets became available and the law for the first time allowed local governments to use those assets to make a slightly reduced pension payment starting in 1998.

P.L. 2000, Chapter 8

The law was meant to be a onetime accounting maneuver using excess pension assets to permit the State and local governments to reduce their PFRS pension contributions for 2000 and 2001. Local governments were expected to save \$45 million of the \$275 million PFRS contribution in 2000 and \$22 million of the \$249 million contribution for 2001. In reality they saved close to \$65 million in 2000.

P.L. 2001, Chapter 44

Not content with the savings promised by Chapter 8, local governments were again given a massive break on their PFRS contributions in 2001. Chapter 44 provided a \$150

million reduction in local government pension payments for 2001. The law was meant to "stabilize" PFRS pension contributions and *"savings realized by counties and municipalities as a result of the reduction will be required to be used for property tax relief"* (Assembly Appropriations Committee Statement to Senate Bill 1961). In reality, local governments saved over \$170 million in 2001 and they made zero normal contributions in 2002 and 2003 as a result of the use of excess pension assets.

P.L. 2003, Chapter 108

By 2003 the pension system was beginning to feel the effects of the lack of pension contributions and the dramatic losses in investment income. Excess pension assets dried up and PFRS local government employers were informed they would need to make full payments in 2004. The League of Municipalities once again went to the Governor and Legislature for relief and was granted a "phase-in" in their required contribution to PFRS rather than another holiday. Local governments were allowed to ease into their pension payments between 2004 and 2007.

The law required them to make up to a 20% payment in 2004, 40% payment in 2005, 60% payment in 2006, 80% payment in 2007 and a 100% payment for 2008 and thereafter. The money not paid during this phase-in period was added to the unfunded liability of the PFRS and is required to be made up by local governments in their future payments. This meant that even though local governments contributed over \$869 million to PFRS between 2004 and 2008, they still made only 50% of the payments required of them to fund the System.

Police and Fire contributions keep system alive

During the same period that local governments were making limited or no contributions, members of the PFRS made every scheduled payment of their required contribution. PFRS members make the highest pension contribution of any public employee in New Jersey and in the nation (8 1/2%). In fact, when other public employee groups were moving legislation to lower their pension contributions, the State PBA rejected calls to lower the PFRS percentage. This fiscally prudent approach essentially saved PFRS from collapse particularly when considering that in 2001 and 2002, investments by the State for the PFRS lost over \$2.8 billion and local governments contributed only roughly \$80 million. PFRS members, however, made \$1.8 billion in contributions between 2001 and 2007. There can be little question that PFRS members paid their fair share for the pensions and that poor investment strategy by the State and lack of pension contributions by local governments were the primary factors for pension system losses and current payment requirements.

Where did the money go?

The primary purpose of the reductions in local government PFRS contributions was property tax relief. Yet statistics demonstrate that property taxes rose, despite the Pension Holidays and increases in property tax relief programs funded by the State, and New Jersey remains the State with the highest property taxes in the nation.

Local governments are quick to blame rising taxes on police salaries and pension costs but more than half of a property tax bill is collected for use by school districts to fund education NOT local government services. **However, considering that local governments skipped nearly \$1 billion in pension contributions from 2000-2008, taxpayers should be even more concerned with where this money was spent while their taxes were rising.**

If the money was not used for direct local property tax relief, then what was it used for?

Were the annual savings used for refund checks for property owners?

Were the annual savings used to fund critical public safety programs, like hiring more officers or fighting gangs and drugs?

Were the annual savings used to fund existing local programs?

Were the annual savings used to fund new programs?

Whatever the money was used for, it is clear it did not result in a reduction in local property taxes.

No one to blame but themselves

Local governments complain repeatedly that taxes are too high yet when given significant opportunities for cutting taxes they wasted the money, damaged the pension system and now are demanding layoffs to meet their current obligations. To threaten layoffs of law enforcement officers to deflect the blame for rising property taxes is both shameful and dangerous to public safety.

Law enforcement officers met their obligations in funding their pensions. They did so while performing a job that is dangerous and that requires them to work 365 days a year. When City Hall closes on the weekends, the police department remains open. When municipal workers leave for the day, the police continue to work around the clock. When the Mayor and Council are home on holidays, law enforcement officers spend time away from their families keeping the community safe. When local governments refuse to properly staff a department, officers work mandatory overtime. Law enforcement is not a part time job, no community is safe from crime and officers in every county and town can be presented with a life and death situation for themselves or someone else.

After nearly a decade of fiscal irresponsibility it is therefore unconscionable for local governments to call for layoffs of law enforcement officers. Elected officials at the local level need to be held accountable for the billion dollars siphoned away from the pension system. They asked for the break in pension payments. They chose to spend the money while taxes went up. When finally presented the bill for what they owe the system, local governments have decided to blame law enforcement for their tax problems. After ten years and many wasted opportunities to cut taxes, local governments have no one to blame but themselves for their current budget problems.