c

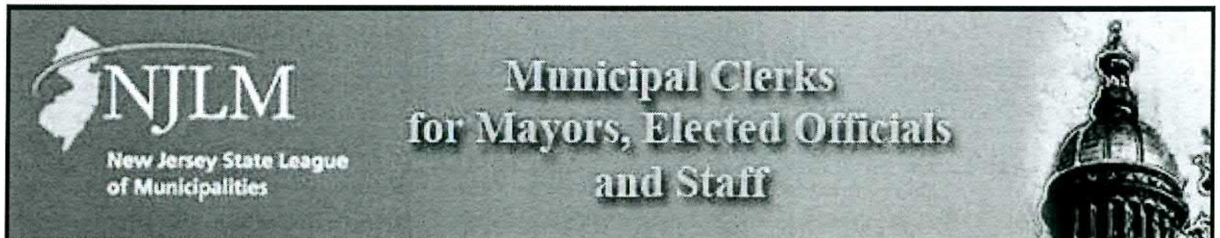
Masser, Michelle

From: Lashway, Lisa
Sent: Tuesday, January 31, 2012 4:18 PM
To: Masser, Michelle; Canning, Sean; Perkins, Ray
Subject: FW: Flawed Decisions Could Inflate Local Pension Bills

Lisa Lashway
Township Clerk
Township of Mount Olive
P.O. Box 450
Budd Lake, NJ 07828
973-691-0900 Ext. 7290

From: NJLM to Municipal Officials [mailto:njlm-clerks@cityconnections.com]
Sent: Tuesday, January 31, 2012 4:07 PM
To: Lashway, Lisa
Subject: Flawed Decisions Could Inflate Local Pension Bills

To view an online version of this email, click here.



January 31, 2012

RE: Flawed Decisions Could Inflate Local Pension Bills

Dear Mayor:

Your next public employee pension bill could be inflated by decisions based on flawed assumptions.

In these difficult economic times, Mayors and municipal governing body members are doing all that they can to hold the line on personnel expenses, while meeting their legal financial obligations. You deserve credit for that. In order for your property taxpayers to benefit from your responsible management, your pension accounts should be properly credited.

We need to make certain that State pension rate setters and policy makers properly credit municipal government, when calculating 2013 PERS liabilities.

Your pension payment rates, which are set by the Trustees of the various pension systems, should be based on information contained in the Annual Valuation Reports, prepared by independent actuaries. Local government rates are calculated separately from State rates. Your final rates will depend on a number of factors, including the division, between the State and local employers, of earnings on investments.

Earlier this month, the Annual Report for the Public Employees' Retirement System (PERS) was presented to the Board of Trustees. This report should serve as the basis for your 2013 PERS bills. According to that report, which compares system activity between July 1, 2010 and July 1, 2011, active membership in Local PERS decreased from 212,808 to 200,361 a 5.85% decline. During the same time, State active membership declined by 5%. During that year, local employers contributed 100% of the amount recommended by the actuaries ($1,611.3 million). The State, for the second consecutive year, made no payments on the $3,060.5 million recommended by the actuaries. In April of this year, local employers are expected to contribute $1,736.9 million – again, 100% of the recommended amount. Sometime before June 30, the State is expected to contribute 1/7 of its recommended $3,388.7 million contribution, which would amount to $434.2 million

These numbers demonstrate what every Mayor understands. Revenues are constricting; while the demand to reduce the size of governmental is ever present. The compensation which can be paid is limited. In fact, the annual compensation upon which the current valuation report is based declined from $11.9 billion to $11.6 billion, or a decrease of $372.3 million. That is a 3% reduction in compensation. As the number of employees covered by PERS decreases and total compensation paid to members decreases, the value of the assets held in trust by the Division of Pensions for the PERS increased to $29 billion.

Those assets have increased during these economically turbulent times, despite the fact that the State, during the last two years, paid $0 toward their required contribution. In those same two years, Local Governments paid 100%.

The valuation report shows investment income of $3.8 billion. The report credited 59% of those earnings to Local PERS, and 41% to the State. In years past, it was common for the State to get credit for more than its fair share of investment income. It was, likewise, the custom to charge a larger percentage of investment losses against local employers. Thanks to the efforts of East Brunswick Director of Finance, L. Mason Neely, the Division of Pensions and Benefits agreed to change this practice and apportion investment income based upon the market value of assets at the close of the fiscal year. Based on that standard, Local Governments should have been credited with 65% of the $3.8 billion. Since pension and benefit payments are excluded for the caps, that additional $200+ million credit to Local PERS would directly benefit our property taxpayers.

With the State having made no payments toward their obligation, we need to know on what basis Treasury intends to allocate that $200+ million to its portion of PERS.

Mr. Neely has written more extensively on this in an article that will appear in our February Mayors' Newsline. Another article highlighting this issue will appear in our magazine soon. Please watch for those. We will continue to keep you posted on this.

Very truly yours,

William G. Dressel, Jr.
Executive Director

---

*If you would like to be removed from receiving faxed advisories please contact Shirley Cade at scade@njslom.com or 609-695-3481 ext. 114 with the name of your municipality and fax number. Thank you.

New Jersey League of Municipalities
222 West State Street, Trenton, NJ 08608
609-695-3481