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**Issue:**

New Jersey has one of the most underfunded pension plans in the nation and current legislation to reform it have been largely ineffective, unable to slow the spiraling major debt that has plagued the system. For example, a reform was passed in 2011, but it has not stopped the increasing debt and some have quoted it as even being unconstitutional [5].

**Background Information:**

The pension plan centers around an annual government payment post-retirement, also known as the annuity, for workers once they reached a certain age. The annuity is typically determined by a pre-established formula based on factors such as but not limited to: age of first employment, age of retirement, years in service, average salary, etc. To this day, this system still persists in nearly every state in the U.S., including New Jersey. Thus every public employee is entitled to a pension plan, putting an enormous strain on the state, which often severely underfunds the pension from what is necessary to support the thousands of retiring workers every year.

**Evidence of Problem Existing:**

New Jersey's pension plan is severely underfunded. Much of this was caused by general neglect by Governors at the turn of the century- prioritizing other issues during both the boom and bust years. As an example, in 2001-2004, the state completely neglected the annual payments. In 2009, NJ was rated as the nation's fourth most underfunded state [2]. In 2014, New Jersey had accumulated \$83 billion unfunded liability since the 2000s [3]. In other words, the state was unable to fund \$83 billion of needed pension funding in the past decade [1]. The outlook is so poor that some experts say that the pension plan may go completely bankrupt by 2027 [2]. In 2014, Governor Christie lowered the funding for pension from \$1.6 billion to \$696 million and the payment for the current 2015 fiscal year from \$2.25 billion to \$681 million [4]. Not only is this insufficient funding per year, it further exacerbates the growing unfunded liability.

**Impact:**

The biggest impact will be on the retiring public employees in the coming years. They have been working for majority of their lives, promised with benefits when they retire, only to receive nothing. Already, the \$696 million payment made last year to the 500,000 retirees provides a measly \$1,400 for every worker [4]. By some projections, the system will go bankrupt by 2027 [3].

**Possible Solutions:**

There have been two different schools of thought in approaching this issue. Some states, like New Jersey, have opted to gradually improve upon the existing structure. The 2011 legislation promised more payments toward workers but also forced labor unions to make some concessions, including raising the retirement age [5]. The other school of thought which many states have been pursuing is implementing radically new pension structures. Around a dozen other states have put in place a hybrid pension plan, combining aspects of both the traditional public retirement plan and a private retirement plan (401k), placing a larger emphasis on employee responsibility. On the short term, cost cutting measures, such as neglecting Cost of Living Adjustments (COLAs or inflationary adjustments) may be able to alleviate some financial stress by not increasing rates according to inflation.

**Sources:**

1. <http://crr.bc.edu/wp-content/uploads/2013/02/New-Jersey.pdf>
2. <http://www.state.nj.us/treasury/pdf/FinalFebruaryCommissionReport.pdf>
3. <http://www.njspotlight.com/stories/14/12/03/moody-s-new-jersey-s-pension-funds-could-run-dry-in-just-10-years/>
4. [http://www.hks.harvard.edu/index.php/content/download/70338/1254162/version/1/file/2012\\_Healey\\_Hess\\_Nicholson\\_Underfunded+Pensions+in+the+US\\_Published+April+5+2012.pdf](http://www.hks.harvard.edu/index.php/content/download/70338/1254162/version/1/file/2012_Healey_Hess_Nicholson_Underfunded+Pensions+in+the+US_Published+April+5+2012.pdf)
5. [http://www.nj.com/politics/index.ssf/2015/01/how\\_did\\_nj\\_get\\_into\\_this\\_pension\\_mess.html](http://www.nj.com/politics/index.ssf/2015/01/how_did_nj_get_into_this_pension_mess.html)