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State explores solutions to N.J. pension problem

Possible solutions: Reduce workers' benefits, raise retirement age or increase taxes

By **JASON METHOD** • STAFF WRITER • March 7, 2010

The state's financial crisis may force New Jersey to raise the retirement age for state workers again and scale back pension benefits even for current government employees, state officials said last week.

Those were two of several dramatic proposals aired as officials began to fathom how to deal with the state's \$11 billion deficit for the state budget that begins July 1.

The public discussions even included a moment when the state treasurer broached the idea of a bankruptcy filing for the state's pension systems, an idea he later said was a "rhetorical question" that is not legally possible.

With Gov. Chris Christie's budget address due March 16, administration officials and legislative leaders are faced with an ever-increasing pension obligation that would call for the state to pay \$3.1 billion toward pensions in the new budget.

Then there are the rising health benefit costs for retired workers, a total liability of some \$55 billion, according to state officials.

The severity of the situation was highlighted late in a meeting Tuesday of the Governor's Council of Economic Advisors.

After Christie gave what has become his stump speech about the painful choices that must be made and then left, state Treasurer Andrew P. Sidamon-Eristoff and the advisers settled into a long discussion with several experts.

David L. Crawford, Wharton Business School adjunct professor and private economic consultant, said options could include the state raising the retirement age by a year and reworking compensation packages to discourage teachers from staying in their job for their entire career.

Crawford, a self-described "very liberal Democrat" and former adviser in Gov. Jim Florio's administration, also told the group that all the likely financial maneuvers to deal with burgeoning pension costs would fail, and he suggested that the state change the formula for current workers going forward, while guaranteeing benefits already accrued.

Sidamon-Eristoff said such a move would find strong resistance.

"I agree with you," he said. "But where do we get the political will to even take this on? You're asking for a 180-degree turn. I don't know where that comes from."

Then Sidamon-Eristoff raised another idea.

"Can I put out a radical concept?" he asked, and was quickly told the microphones were still on. "Has any pension system anywhere in the world declared bankruptcy?"

Crawford said there is no provision under the bankruptcy law for such a filing, and Sidamon-Eristoff concurred. In an interview afterward, Sidamon-Eristoff said he had researched the law and also found that to be true.

"I ask that rhetorically because I wanted to know if there was more out there from

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what I understood from the research," Sidamon-Eristoff said. "But the challenge is enormous."

The treasurer said during the meeting that the state should "substantiate a rational approach, ratcheting up the retirement age . . . over time." In the interview, he said he has not yet endorsed any ideas on how to deal with the pension situation.

The dire message was repeated at the Assembly Budget Committee Thursday, when the director of the state Division of Pensions and Benefits, Fred Beaver, discussed the state's \$46 billion unfunded liability for its pension systems.

Beaver lamented the fact there are still bills to improve pension benefits for workers while the systems continue to fall further behind in their expected liabilities. He noted that one reform proposed — which would require the state to make its full pension payment in seven years — would put the pension funds further in the red until the state catches up.

Committee Chairman Louis D. Greenwald, D-Camden, said that reforms being considered in the state Assembly now would do little to blunt the rising annual bill. If the state continues to underfund the pensions each year free up money to balance the budget, the annual contribution needed would grow to \$12 billion seven years from now, he said.

"We've hit a dead end," Greenwald said. "... Where do we go from here?"

Pressed later about what measure would lower the state's annual pension deficit problem, Beaver said, "If you want to have an impact, you have to do something for the people already on the books."

At the end of his comments, Beaver said that an even larger budget problem is health benefits for retired state and local government workers, which he pegged as a \$55 billion unfunded liability.

Greenwald said in an interview with reporters afterward that pension changes to current employees must be considered.

Two union leaders, representing the state's teachers union and the Communication Workers of America, said they would oppose any move to further raise the retirement age, which was raised last year, and fight any proposed reduction in benefits for current workers.

An attempt to reduce benefits could trigger a lawsuit, because the state constitution calls pension obligations a "nonforfeitable right," according to Crawford and Albert Porroni, executive director of the nonpartisan Office of Legislative Services.

Porroni said in an interview that health benefits are not constitutionally guaranteed and could be reduced.

He also said an administration could come before the state Supreme Court and argue it did not have the money for both pensions and to provide a 'thorough and efficient' education, as also required by the constitution.

"The ultimate analysis is, do you have the money?" Porroni said. "If you don't have money, then that's an argument you can make."

The court could then order the state to raise taxes or take other action, he said.

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