

Panel calls for cost-cutting to stabilize New Jersey pension fund

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The New Jersey state government estimates its unfunded pension liability for public employees at \$50 billion, but the Government Accounting Standards Board calculates the debt to be \$90 billion. At this point, after years of underfunding, the pension system has enough assets to cover only 31 percent of its liabilities.

“Intransigence, inaction, apathy, and denial are habits the State can no longer afford when it is at risk of losing the budget flexibility necessary to respond to emerging challenges and crises,” the panel warned. The report recommends maintaining current state and local pension plans, and moving active employees to a “cash balance” plan that combines a traditional pension with a 401-k, exposing retirees to the danger of substantial losses in the next economic crisis, as happened in 2008. Under such a plan, the newest employees would receive the lowest level of benefits that the state government has yet offered.

Kentucky has been maintaining a similar plan for its employees. The Urban Institute found that state employees with fewer years of service would receive more than they would under a traditional defined-benefit plan, assuming no stock market decline, but veteran employees would receive less.

The panel also recommended reducing state employees’ health benefits to the less-generous levels common in the private sector. Finally, it recommended shifting a larger share of health care costs to state workers.

Dan Bryan, a spokesperson for governor-elect Phil Murphy, a Democrat, reiterated Murphy’s resolve to fully fund the state’s pension obligations. Full funding of future payments, even if implemented, will likely be insufficient, however, due to the huge existing deficit. The panel predicts that one fund within the pension

system will run dry within 10 years. Murphy, a Goldman Sachs alumnus, has already vowed that state workers would contribute more toward their pensions. Furthermore, as the state’s financial problems deepen, it is likely that he will propose tax increases that would affect more than just the wealthy state residents whom he singled out on the campaign trail.

In the budget for the current year, New Jersey’s annual retirement contribution is \$2.5 billion, which is half of what actuaries say is needed. At the same time, New Jersey has lost more than \$4 billion in revenue because of tax cuts that Christie and the legislature have passed since 2010.

The panel declared that recent changes to the pension system have been insufficient. In July, the state adopted a plan to allocate about \$1 billion from the sale of lottery tickets to the pension system. This tactic shifts some of the state’s fiscal obligations onto working people’s shoulders, and the panel stated that it would not “save the pension plans or the state budget.”

The state government created this problem 25 years ago, and governors from both parties have starved and looted the pension funds ever since. In 1992, Democratic Governor Jim Florio diverted \$1.5 billion in pension payments, expecting that the future value of New Jersey’s investments would make up for the shortfall. To balance the state’s budget, succeeding Republican Governor Christine Todd Whitman sold \$2.8 billion in bonds, again relying on the assumption that investment income would be large enough to pay for interest that the state would owe. After she left office, legislators increased state pensions by 9 percent without earmarking funds to pay for them.

The bursting of the dot-com bubble between 2000-2002 and the great recession that began in 2008 brought hardship to working people and took a toll on

the state's finances. Governors used the opportunity to trim pension payments in the name of belt-tightening and fiscal responsibility.

Christie increased the amount that state workers must contribute toward their pensions. He promised that the state would greatly increase its payments to the pension fund, but he and the legislature have never fully funded an annual pension obligation throughout Christie's time in office. Although under Christie the state contributed more to the pension fund than the previous five governors combined, the debt obligation keeps increasing.

In 2015, a commission appointed by Christie recommended reducing retirement and health benefits while making employees pay more into the system. The public employee unions and some legislators pretended to express outrage. A proposed constitutional amendment would have required the state to contribute toward pensions quarterly, rather than annually, and would have increased the amount of the state's contribution over time. However, the legislators' professed outrage was purely for show, designed to divert workers' anger. The promised amendment did not appear on last November's ballot.

To expect any governor or any legislator from either party to materially improve the welfare of state workers, or any workers at all, would be to ignore the behavior of the two big business parties, especially for the last two and a half decades. The governor and legislators are beholden to the pharmaceutical chiefs, construction magnates, and financial executives that fund and maintain them. The state government can be counted on to try to extract more value from the workers and to safeguard these millionaires' profits.



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