Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON PUBLIC EMPLOYEE BENEFITS REFORM

"Testimony from invited constituency groups on measures to reduce and contain costs related to State and local pension, health, and other employee benefits"

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: October 12, 2006
10:00 a.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Nicholas P. Scutari, Co-Chair
Assemblywoman Nellie Pou, Co-Chair
Senator William L. Gormley
Assemblyman Thomas P. Giblin
Assemblyman Kevin J. O'Toole

ALSO PRESENT:

Pamela H. Espenshade
James F. Vari
Office of Legislative Services
Committee Aides

Christian Martin
George LeBlanc
Senate Majority
Aaron Binder
Karina Fuentes
Assembly Majority
Committee Aides

Laurine Purola
Olga Betz
Senate Republican
John Kingston
Jerry Traino
Assembly Republican
Committee Aides

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SENATOR NICHOLAS P. SCUTARI (Co-Chair): Can everyone please find seats?

Ladies and gentlemen, thank you and welcome back to the pensions and benefits review Committee.

Before we get started, I'd ask that everyone check their cell phones and please place them on silent or vibrate so they don't disturb the testimony of the individuals that will be in front of the Committee today.

Not to be rude, but we are going to stick with a strict time constriction on the speakers. I'm letting you know that right now. So when the warning bell goes off, please wrap up your testimony so I don't have to gavel anyone or call them out of order.

Also, the speakers that are here today, this morning-- They've been given some ground rules on what areas we'd like them to address. And we're interested in their testimony, we're interested in their ideas, and we're going to listen carefully. But I also caution and recommend to them to stay on point with respect to the parameters that were given to them ahead of time.

We have our first invited guests today: Bob Master, Rob Nixon, Joyce Powell, Richard Dorow, Pete Guzzo. Please come forward to the table.

Just so you notice, you have nameplates.

And I know that you don't look like Joyce. So if you could find your nameplate, only so all the members of the Committee are certain -- and people from our viewing public -- are certain as to who is who while you're speaking.

All right. It looks like we're all where we're supposed to be now.

Okay. Ladies and gentlemen, welcome again.

I would call on Richard Dorow. If you'd like to begin your presentation, we'd appreciate that.

RICHARD R. DOROW: Thank you very much.

I'm Rich Dorow, Executive Director of the New Jersey Association of School Business Officials. I certainly will try to keep to my five minute time limit.

There are six issues I would just like to bring to the attention of the Committee for consideration.

The first recommendation that we have-- Members-- And I'm going to talk about Teachers' Pension Annuity Fund, because the vast majority of our members are in TPAF, so I'm going to stick to that issue. Members should be aware that people in TPAF contribute 5 percent of their salary into the pension fund. And between the years of 1997 and 2004, the audited numbers indicate $2.2 billion was contributed from salary deductions of TPAF members. According to actuarial reports, this State's obligation was equal to that, and yet their contribution was $258 million during that period of time. I would certainly suggest that that 5 percent remain and, obviously, the State make its contribution to the fund to keep it solvent.

The second area of concern that we have is the alternative investments that were recently approved. It's our understanding, of course, that 13 percent of the pension funds could be in alternative investments that are less secure. An article in the Newark -- the *Ledger* on September 22 indicated that one of those investments, for two weeks, lost the State of New Jersey $16 million. We understand what has happened to the stock market in 2000 to 2003, and I think we should be very careful as to where we put these moneys, in terms of securing the long-time pension benefits of employees.

The third matter I have before you is the State Health Benefits Plan. This is a highly restricted plan. It doesn't allow school districts to have spousal labors, it doesn't allow for co-pays, it doesn't allow to treat employee groups in a different manner. It is not flexible, and that's the reason why so many school districts are leaving the State Health Benefits Plan and going into private plans -- so that they have the ability to negotiate favorable contracts with their employees.

The third (*sic*) area I'd like to discuss is, obviously, the minimum salary of $1,500 to enroll in the pension fund. Certainly, we agree that that figure is too low. I would like to suggest to the Committee that the year that was enforced, or initiated -- that we should take a look at what the cost of living has been since that time, as a benchmark towards determining what the minimum salary should be for enrolling in the pension fund.

The fifth item I would like to bring up is pension abuse. And, certainly, we're concerned about individuals that earn the minimum amount of salary, have the number of years in, and then, obviously, during the final years of employment, they secure a high-paying job. And they haven't contributed to the pension at that level, and they're collecting a high pension. So certainly pension abuse is an area that we want eliminated, as well.

And the last item I have for suggestion to the Committee is that, in some school districts -- and I say *some* -- some of the professionals -- and I'm talking about physicians, attorneys, and architects -- are permitted to enroll in the pension fund as employees of the district, and get health benefits and whatever other fringe benefits are there. And I would suggest that those professionals not be permitted to get those fringe benefits.

And that pretty much ends my suggestions to the Committee. I appreciate you being here. And I thank you very much for this opportunity.

SENATOR SCUTARI: Thank you very much.

Okay. Joyce Powell, from the New Jersey Education Association.

Welcome.

J O Y C E P O W E L L: Thank you and good morning.

Certainly, I appreciate the opportunity.

Is this red? (referring to PA microphone)

SENATOR SCUTARI: If it's red, you're on.

MS. POWELL: Okay. Thank you. Sorry.

Certainly, we look forward to the opportunity to work with the Committee to ensure that New Jersey's pension and medical benefits systems are efficient, that they continue, that the State continues to offer the promised benefits that members and public employees certainly are entitled to, and that we would like to see them at a lower cost to the taxpayers. Certainly, we would like to be part of the solution to the difficulties that we are all facing.

In Clifton last month, I shared some ideas, that NJEA firmly believes, that pension and medical benefits should not be tiered or reduced. So I'm not going to go over that same ground again, today.

I would also mention to you that I know that you may hear some testimony regarding the high cost and that the high cost is increasing. And I would just remind you that you enacted legislation in the past that allowed a phase-in at 20 percent a year. So there will be a 20 percent increase, because that was done legislatively to help locals and counties so that they wouldn't have a high cost. But we do believe that they should be making those payments to the system.

We do have some suggestions that we believe will maintain the current level of benefits at a lower cost to the State. I'll try to be brief. We have some options that we believe will save money to the State; that we think the State should explore several possibilities. Again, the bulk purchasing of drugs -- of prescription drugs; the counter-detailing to encourage greater use of generic drugs; and programs to ensure -- to encourage healthy lifestyles among plan participants. That's something that's lacking in the State Health Plan that, we believe, should be in there. And we think that these will allow the State to maintain benefit levels while increasing efficiency within the system.

Also, we'd like to explore a few other ideas. And one that's most obvious and appealing is to enact legislation to end abuses, as was mentioned, to the pension system. And everyone who has been following this issue is well aware that there are some problems with boosting and tacking. And the Legislature should enact very carefully crafted legislation to prevent this from occurring -- the abuses in the system.

You know that pensions are provided to -- are intended to provide financial security to people who have dedicated their careers to a life in public service. And they certainly shouldn't be something that the people would be able to have a windfall, because they have some political connections, at the end of a career. And we also believe that you should curb abuse to protect the legitimate interests of the true public servants.

There's a distinction between an art teacher or a physical education teacher that must work in one or two districts because a district doesn't need someone to work full-time in that particular district; than with an attorney or someone who represents six or seven municipalities at the end of his or career -- that finagles a very high, six-figure pension. And we've seen that in the paper. It's been well-documented about those situations.

We believe, also, that the State should look at implementing positive incentives for employees to remain on the job longer so that they will be paying into the system for a longer period of time. Unlike early retirement incentives, which burden the pension system, appropriate incentives to work longer could actually strengthen the pension system. In the case of school employees, such incentives would have the added attraction of keeping talented, experienced employees in our public schools. We are losing far too many of our classroom teachers in the first five years of employment. Between three and five years, we're losing between 40 and 50 percent of our younger individuals. And we need to make sure that they have a way to stay in the system.

In terms of the State Health Benefits-- We want to maintain the integrity of the State Health Benefits system. And we believe that there should be a thorough audit of the system participants to ensure that there are only eligible participants in the system. And we think an audit will also have significant savings without reducing anyone's, again, legitimately earned benefits.

We also support requiring insurance brokers to disclose the brokerage fees that they charge the public entities. We believe that these fees are astronomical. We think that they should have to -- that there should be transparency, that those fees must be -- the public must see them. We think that they're anywhere between 15 and 30 percent, while the State Health Plan has a much lower percentage.

I would like to just close with one important point that-- We know that the private sector in America is engaged in a race to the bottom, and they want to see who can get away with providing the least amount of benefits to employees. And as a result, in the United States of America, we have 50 million uninsured people -- that just is unacceptable -- 1.4 million right here in New Jersey. We have a health-care crisis in our nation. We hope that, again, we will help to be the solution to solve it for the public employees. And we do not wish to see a chipping away at the benefits to public employees. The State should provide a reasonable level of security to employees.

And, again, we would offer to be part of the solution to help you with this.

Thank you.

SENATOR SCUTARI: Thank you very much for your testimony.

Can we hear, next, from Bob Master, from the Communication Workers of America?

R O B E R T   M A S T E R: You can.

SENATOR SCUTARI: Thank you.

MR. MASTER: Members of the Committee, I want to begin by thanking you for the opportunity to testify before you this morning.

Although I want to make it absolutely clear, from the outset, the CWA is deeply troubled by the mission -- indeed, by the very existence -- of this Committee. Certainly, the Legislature has a legitimate interest in addressing the concerns of the citizens of New Jersey -- the people's safety and well-being, the services provided by their government, their level of taxes. But the Legislature has no legitimate role whatsoever interfering with the collective bargaining relationship between the employer -- in this case, the Executive Branch -- and State workers and their unions. (applause) Even less--

SENATOR SCUTARI: Excuse me. If we're going to have that kind of outburst, it's just going to take away from the legitimate time of each of the speakers. So I'd ask that you refrain from your applause, no matter how good or valid you believe the points that are being made are.

Thank you very much.

MR. MASTER: Even less can the Legislature presume the authority to dictate benefits unilaterally -- benefit levels unilaterally to tens of thousands of public workers.

The principle at stake here is simple and fundamental. The wages and working conditions of workers should be determined through collective bargaining. This has been a sacred principle for unions -- and for

Democrats, at least -- for 70 years. The principle was legally enshrined by the National Labor Relations Act passed in 1935 and, along with Social Security and the Fair Labor Standards Act, one of the three greatest New Deal achievements for working men and women.

The preamble to the Act states: "It is declared to be the policy of the United States to encourage the practice and procedure of collective bargaining, and to protect the exercise by workers of full freedom of association, self-organization, and designation of representatives of their own choosing for the purpose of negotiating the terms and conditions of their employment or other mutual aid or protection."

John F. Kennedy, campaigning for President in 1960, eloquently reiterated this principle: "Those who would destroy or further limit the rights of organized labor, those who would cripple collective bargaining or prevent organization of the unorganized, do a disservice to the cause of democracy. Employees represented by free and democratic trade unions of their own choosing participate actively in determining their wages, hours, and working conditions. Our labor unions are not narrow, self-seeking groups. They have raised wages, shortened hours, and provided supplemental benefits. Through collective bargaining and grievance procedures, they have brought justice and democracy to the shop floor."

I submit to you that this Committee and this Legislature run the risk of doing exactly what President Kennedy warned against: crippling collective bargaining and doing a disservice to the cause of democracy. And I assure you that CWA will do everything in our power -- everything -- to protect the principle of collective bargaining and to defend the trade union rights of our members. (applause)

Frankly, the spectacle of a Democratic-controlled Legislature, in a so-called northeastern *blue state*, preparing to introduce legislation that would unilaterally impose the terms and conditions of employment on tens of thousands of union-represented workers is both shocking and appalling.

Having said this, I can also assure you that CWA is not unmindful of the grave fiscal issues facing the State of New Jersey. We did not cause the problem. New Jersey's fiscal crisis can be traced directly to the irresponsible Whitman tax cuts, which largely benefited the wealthy, in the mid-1990s; and to a decade of irresponsible budget gimmickry which followed. No, we did not cause the problem, but we intend to participate in shaping a responsible solution. And we will do it, as we have in the past, through the collective bargaining process.

It is worth briefly reviewing the recent history of health-care bargaining in New Jersey, because it effectively illustrates how the collective bargaining process serves the interests of management, labor, and the public.

Starting in the late 1980s, successive New Jersey administrations sought significant changes to the health-care benefits of State workers. Both the Florio and Whitman administrations sought to impose major health-care givebacks on the workforce.

We resisted these proposals, because free health care was then, and remains today, very important to our members. But we agreed that everything possible should be done to constrain health-care costs within the framework of preserving at least one free health-care option for our members.

SENATOR SCUTARI: Sir, can you please wrap up? You're over time at this point.

MR. MASTER: Okay. I would only point out that we managed to negotiate a free health-care plan called New Jersey PLUS, which we, through a series of incentives, encouraged our members to enroll in. Seventy percent of our members are enrolled in New Jersey PLUS. That plan costs the State 25 percent less than the average cost of plans in the private sector. So, in fact, the health-care costs paid for by the State for health-care workers (*sic*) is 25 percent lower than the private sector, and significantly lower than the public sector plans of comparable states like New York and Massachusetts.

I also want the Committee to know that in 2003 collective bargaining, we negotiated a contract which we estimated saved the State approximately $400 million, not counting the 2 percent increase in the pension contribution that we made. Needless to say, this was not the most popular contract that we've negotiated, but there was enough in it, achieved through the collective bargaining process, that our membership overwhelmingly ratified it. 2006 is no different than 2003. Our members understand the fiscal problems of the State, and they are prepared to address these problems.

Let me conclude by saying that collective bargaining has worked before, both for State workers and for the citizens of New Jersey. It can work again if you let it. We were supposed to be in bargaining today, working towards a new contract for State workers. We're here today because we want you to hear, loud and clear, from everyone in this room -- from local presidents, to shop stewards, to rank and file members -- that we will not allow anyone to trample on the collective bargaining rights of State workers. (applause) And we hope--

I think what you see today illustrates the feelings of our members about this process. We urge you to reconsider the path upon which you've embarked.

Thank you.

SENATOR SCUTARI: Mr. Master, thank you very much for being here today. I appreciate your comments. I appreciate your membership for being here today, although we could do without the delays in your testimony. I do appreciate their feelings in being here, and they will be taken into account. That's really not going to change my opinion on what we're going to do. But I appreciate you being here today.

And can we have Mr. Nixon, from the PBA and FMBA, please, give your testimony?

ROB NIXON: Thank you, Senator.

I appreciate the opportunity to be here on behalf of the PBA and FMBA. And I will certainly be direct as possible in my comments.

I think that you know, and the Committee knows, from our conversations here in Committee as well as in private, that police and firefighters very carefully guarded their pension system from abuses over the years. We've opposed legislation that would add unnecessary parts to it, or wasteful parts to it. We've never stopped paying our -- highest in the nation -- pension contribution of 8.5 percent. And the vast majority of our health benefits are negotiated at the local level and, most often than not, negotiated in a very positive and easy manner there. We don't apply overtime to our pensions, even though overtime is mandatory. We can't hold multiple jobs in PFRS. And we believe that our pension benefits aren't necessarily suited toward a tiered system.

But having said that, we do believe there are several things that we think the Committee can focus on. Most directly is that we believe that the State and local governments should continue to ensure the health and the safety of the pension system by continuing to make the required pension contributions. We believe -- and as the Murphy Commission stated, and we hope that this commission will state as well -- that it was the lack of contributions to the system, not the pension benefits offered to the members in it, that caused the underfunding of the system over the last several years. And we hope that you will echo that as you move forward.

I'd also like to comment on several areas where we believe that the -- where savings can be found in the health benefits system. And some of these you have already heard today; and I'll run through them briefly.

We don't need a primer that health-care costs are skyrocketing in this state and throughout the nation. And, therefore, public and private employers alike need to shop around for the cheapest plan to offer the largest level of coverage. This is the kind of flexibility, unfortunately, that does not exist in the State Health Benefits Plan. It's an all-or-nothing benefits package. And if employers and employees want to negotiate a variety of benefits -- say an increase in mental health coverage, or radiology -- if they're in the Plan, they most likely cannot. So it forces employers and employees to look around for a plan in which they can more easily operate. And this can happen, even if the State was going to offer the same exact insurance carrier.

As a result, municipalities leave the plan, costs go up. And we know that that's been a problem down the road. So, in short, choice and flexibility within the State Health Benefits Plan could open the door for savings. And increasing the number of employees in the plan could, through economies of scale, also help to yield additional savings and lower prices.

We're also aware that the Committee and others have discussed ending dual coverages for health benefits for -- when both spouses in a family are public employees. We know this is the case when, for instance, a firefighter or a police officer is married to a teacher, or vice versa. We know that that happens very often. We would suggest that it might make it more attractive to somebody in that situation to choose one benefits package or another. If there was an option allowed for that employee to opt out, but retain the right to come back in at a later date -- and there could be a number of reasons why you would want to come back in. But whether you're in the State Health Benefits Plan or not, allowing that kind of flexibility to move in and out of the plan, and cancel coverage on one end--

And we've also heard some other things -- I won't repeat them -- through our friends in the NJEA and the school boards about bulk purchasing of pharmaceuticals and other areas of savings that were recommended in the Murphy Commission report.

Finally, Senator and members of the Committee, I want to emphasize that police officers and firefighters are public employees who are compensated and provided benefits not necessarily for what they do, but for what they may be asked to do. And we hope that -- and we know that you've been keeping that in mind. We take that, and the responsibility of police and fire in our community, very seriously. We believe that the pensions and benefits that are offered to them are a part of what it is to be a police and fireman today in the state. And we hope that when you're evaluating the pension and benefits system, you will keep that principle in mind.

But as always, we are here as a resource for you. We will be happy to answer any questions now, or going into the future.

Thank you.

SENATOR SCUTARI: Thank you, Mr. Nixon.

Thank you, all, for coming today -- all of the speakers.

P E T E R G U Z Z O: Excuse me, Mr. Chairman.

We didn't all get to speak.

SENATOR SCUTARI: I'm sorry. You're right.

MR. GUZZO: I've been quiet here. That's why you didn't notice me.

SENATOR SCUTARI: Mr. Guzzo, I apologize.

MR. GUZZO: No problem.

Thank you very much.

Mr. Chairman, members of the Committee, good morning.

I'm Peter Guzzo. I'm here representing a number of groups: the FOP, Fraternal Order of Police; the Professional Firefighters Association; the higher education faculty of the AAUP and AFT; and the health-care workers, HPAE, which are health-care workers and nurses throughout New Jersey.

First of all, thank you for the opportunity, on behalf of my organizations, to be here. And I do have representatives of these organizations here today. So if there are any detailed questions, they would be available to help you.

The public employees I'm speaking on behalf of, as well as the other representatives here, touch the lives of every one in this room on a daily basis. In my case, the groups I'm speaking on behalf of -- nurses, health-care workers, higher ed faculty, police and fire -- again, as I say, on a daily basis, at least on a weekly basis, we're all touched by the services they perform.

These public employees, as others represented in this room, did not lobby for the holiday on paying into the pension systems in New Jersey. In fact, public employees have continued to pay into the system. And I won't repeat much of what Mr. Nixon said regarding police and fire, because we echo each other's opinions on this. But, again, police pay and fire pay 8.5 percent of their annual salary into the pension system -- the highest in the country. Other public employees pay their fair share.

Regarding police and fire, we know that there is a $4 billion hole right now in the police and fire system. This has resulted in overall -- reduced overall PFRS pension funding from 96 percent to now 80 percent over the last three years running. So I think it's clear. If there's a dilemma, if there's a problem in the pension system -- whether PERS, or police and fire, or the teachers' system -- it's not because the employees haven't continued to do their fair share.

Regarding higher ed faculty, there's one field I do want to focus on, because they could be unduly hurt. We know that in the higher education community, adjuncts and part-time lecturers have been taking on more of a role, right now, than full-time faculty. In fact, there are 12,000 part-time lecturers and adjuncts in New Jersey, now, at Rutgers University and all the State colleges. If you devise a system to prevent what you call *double-dipping* -- which is double-dipping -- please make sure that these part-time folks are not caught in this web. The reason being, many of these people -- and I know them -- teach multiple jobs. I mean, they have to, to make their living. They may teach at four or five different State colleges with a combined salary at the end of a year of lower than the poverty level.

So when you devise a system to prevent some of the abuses, please take into consideration the problems that you would create for these part-time lecturers and adjuncts who are devoted teachers and are tremendously underpaid by the universities and colleges that they work for. I mean, they're lucky to have health benefits, let alone the salaries they make.

So, in conclusion, let me just say on behalf of all my groups, public employees I represent have continued to contribute to the pension system. They are not the abusers regarding double-dipping. They are just average public employees making a living. And the benefits that they have are negotiated and should be -- as Mr. Master said -- and should be continued to be negotiated at the collective bargaining table, not through legislation.

Thank you very much. (applause)

SENATOR SCUTARI: Thank you, Mr. Guzzo.

You bring up a very good point. I just want to elaborate on that before I open the panel -- discussion up for questions from the members.

You talk about the tacking of pensions for part-time or adjunct professors. Now, obviously, a blanket denial of the ability to tack pensions together would affect that particular constituency group of yours. Is that right?

MR. GUZZO: Tremendously, because they may-- If they teach six courseloads at, say, $2,000 a courseload, at different colleges-- If you prevented them from accumulating that, they would be affected. If there's a minimum salary for being in the pension system, and you don't allow the tacking, there's no way they would be in the pension system.

SENATOR SCUTARI: And that's something that you believe we should -- the Committee should take into consideration when making either a ban on tacking or making some changes to the tacking.

MR. GUZZO: Have some exemption, because like I said, there are about 12,000 of them, right now, throughout the state.

SENATOR SCUTARI: Thank you very much.

I think Assemblyman O'Toole had a -- got my attention first. Then Assemblyman Giblin.

ASSEMBLYMAN O'TOOLE: Great.

Thank you, Chair. I hope to have just a comment, and a question from hearing the testimony of Mr. Nixon.

And I certainly appreciate the constructive criticism and ideas that have been put forward by all of the speakers.

My observation and question to you, Mr. Nixon, through the Chair, is you make a compelling case that the -- those members in the PFRS have been contributing 8.5 percent per year, the highest in the nation. And you have, "never taken a holiday." We've heard that from Mr. Guzzo as well.

My observation is, is there-- Was it by operation of law, or just a more prudent approach than what the State government has done for the last nine years, that mandated, allowed, or encouraged you folks to say, "We need to make sure we plow this money into a nest egg to make sure it's there when it's raining"? And it's clearly raining today. So why is it that you had that accounting program in place?

MR. NIXON: Well, number one, I'd like to think it's because the PBA and the FMBA are very careful with the pension plan. And we understand that you can only get money into the pension system, it can only grow, if there's contributions from the employer, from the employee, and that investments are allowed to help that grow.

We have, over time, opposed legislation -- and you may have -- we may have lobbied you on it -- opposed legislation to add people into the pension system who aren't -- who don't technically qualify for the police and fire title. We've opposed providing additional benefits for people with less than 25 years. We've opposed legislation to allow people to stay in the system past 65. We think that there is a responsibility that exists, on our side, to make sure that we're guarding the pension system carefully. So even when there's been legislation that would give a benefit, if we felt that it was going to hurt the system we haven't supported it. And all we need to do is look at-- The employer is getting a holiday for the last several years. We never asked for a holiday. We never came back and said, "Well, you're getting that. We want a break." Because we just knew that it wasn't going to be healthy for the system. And we are glad that everyone is now paying into the system fairly.

ASSEMBLYMAN O'TOOLE: I guess my question is, it seems that the reforms that we are speaking of during the last month-and-a-half -- it seems like some of those reforms have taken place already, that you have put the money aside, that there is-- I'm kind of impressed that there is no applied credit to overtime in the pensions, and that you have a prohibition on multiple jobs. Those are some of the things that we're trying to eliminate.

And my last--

And I think that you should be commended for that.

And my last question is: Tell me why you think that your program for police and fire is not suited to be broken down into tiers.

MR. NIXON: Well, I appreciate your comments, Assemblyman.

I don't believe that a police and fire title can be broken into tiers because we have multiple pension options. You have a special retirement benefit -- it's called a *special retirement benefit*. That's just what it says in the law. But it's a normal retirement at 25 years. We also have accidental disabilities and ordinary disabilities, depending on whether you are injured on the job.

And I'll use an example of two firefighters who go rushing into a burning building. The roof caves in on them. They're both seriously injured. They can't work anymore. The one-- If we tier it, how would you break that down for them? One person would get 66-and-two-thirds accidental disability pension. What does the other guy get? It's the same injury, it's the same job. And can we put a value on creating two classes of police officers, two classes of firefighters who do the exact same job and face the exact risk?

So we feel that part of the profession yields that you can't separate out by saying, "Well, you started in 2006. So, therefore, you get something less." Because we kind of feel that it puts an unfair, undervalue on somebody's service or somebody's life, maybe a widow's benefit. How would you possibly tier something like that?

ASSEMBLYMAN O'TOOLE: Okay.

Thank you, Mr. Nixon.

MR. GUZZO: Mr. O'Toole, may I just chime in, in support -- on behalf of the FOP and the Professional Firefighters, with what Mr. Nixon said, especially on the last question?

It also becomes a morale question. I mean, it's the team -- the spirit of the team of police officers and firefighters -- that they work together. How could you have two -- as Mr. Nixon said -- two police officers or two firefighters, performing the same duty, without having a morale effect if one is at a lower tier than the other?

ASSEMBLYMAN O'TOOLE: Well, I know in other states they do it. I was just curious for the rationale.

Thank you.

Thank you, Mr. Chair.

SENATOR SCUTARI: I have one question while we're on the topic, before I go on to the Assemblyman.

You stated earlier in your testimony that you opposed the introduction of other groups into separate parts of police and fire. Were there any recent introductions of any groups, that your group opposed introduction into your particular benefit system?

MR. NIXON: Well, fortunately, no.

The most recent attempt was when the prosecutors and assistant prosecutors attempted to be added into the police and fire retirement system. That was the last major push. That was unsuccessful, and the Legislature created a separate part of the Public Employee Retirement System for them. But, fortunately, no. There is a very specific definition, within the police and fire title, that says, "You have to meet certain qualifications in order to qualify for that pension benefit." So you couldn't-- For instance, police directors who have that title wouldn't qualify, because they're not involved in the arrest, detention, apprehension of a person carrying a firearm, etc.

So, fortunately, nobody's been added, at least in the last decade, that I'm aware of.

SENATOR SCUTARI: Just to play devil's advocate on that point for one second though-- I mean, when was the last time a police chief, generally, is in the apprehension of a suspect? That's really reserved for--

MR. NIXON: Well, it depends on the police department. I mean, there's a lot of smaller communities -- absolutely right, they're out doing that job. And we don't-- As I said, we don't break down where somebody ceases being a police officer. Once a cop, always a cop, I guess, in that sense.

SENATOR SCUTARI: Well, I guess the difference is, the police director is a civilian, versus uniformed.

MR. NIXON: Right. Exactly.

But that's the point -- that it's not a person who fits the definition and belongs in that particular system.

SENATOR SCUTARI: Thank you.

Assemblyman Giblin is next.

ASSEMBLYMAN GIBLIN: Mr. Guzzo, you talk about the per diem professions. I was lead to believe, based on previous discussions, that these folks are in, like, a 401(k) plan -- at least the full-time professors were. And I assumed the per diem were. They weren't necessarily in the Teachers' or the PERS.

MR. GUZZO: No, the part-time lecturers and adjuncts are in the PERS system.

ASSEMBLYMAN GIBLIN: They are. Okay. But the full-time--

MR. GUZZO: They are in the alternative benefit system.

ASSEMBLYMAN GIBLIN: Yes, the 401(k) type.

MR. GUZZO: Right.

ASSEMBLYMAN GIBLIN: Okay. I just wanted to clarify that.

Joyce Powell, people in the typical school that do the maintenance, bus drivers, security, clerical types-- Are they in the Teachers' pension?

MS. POWELL: No, sir, they are not. They are in the PERS. The TPAF would be professional staff, teachers, and administrators.

ASSEMBLYMAN GIBLIN: Okay.

MS. POWELL: But we've not had the ability, unlike the fire and police-- We've not had the ability to determine who has been allowed to come into the TPAF system.

ASSEMBLYMAN GIBLIN: Okay.

MS. POWELL: That's been determined legislatively. That's not determined by the members.

ASSEMBLYMAN GIBLIN: Isn't there a significant trend in the state to contract those types of jobs out to private vendors?

MS. POWELL: In the support professionals?

ASSEMBLYMAN GIBLIN: Yes.

MS. POWELL: There's not a tremendous amount of privatization of our support services. There are some pockets of privatization throughout the state. But for the most, we have about 50,000 members who are in PERS.

ASSEMBLYMAN GIBLIN: Okay. Well, the only thing is, I've seen school districts -- one comes to mind up in Bergen County -- where they have folks cleaning the school, and they're making $302 a week for a 40-hour job. And they're not-- They don't enjoy a pension, they don't enjoy health benefits. And that's not just one. I can tell you, you have an Abbott district in Passaic County that's contracted out.

MS. POWELL: There are some contracted services. But I don't believe, for the most part, that that's the-- That's not the majority of the workforce in our support professionals.

ASSEMBLYMAN GIBLIN: The only thing I'm concerned about, though, is the little people -- whether it's the board of education who does it-- They're literally being thrown under the bus because they wind up-- One, they lose their pensions, they lose their health care. And I can demonstrate that if you want -- about that particular issue.

The other issue you mentioned, Mr. Nixon, was about the assistant prosecutors. Maybe they didn't go into the police and fire, but all the provisions of the police and fire are similar to that. Is that not correct? In other words, whatever you get in police and fire, the assistant prosecutors get now.

MR. NIXON: It's, roughly, similar. I can't say that we were thrilled with that, but that was the Legislature's decision. That wasn't ours.

ASSEMBLYMAN GIBLIN: Yes, the formula, and the retirement age, and things like that.

MR. NIXON: It's very similar, yes.

ASSEMBLYMAN GIBLIN: Okay.

The other thing, too, is -- with your particular pension -- with the 8.5 percent -- what's different from PERS and the Teachers' plan is that all of your members have the ability to retire at 25 years, regardless of age, correct?

MR. NIXON: Correct.

ASSEMBLYMAN GIBLIN: Okay. Thank you.

SENATOR SCUTARI: Thank you, Assemblyman.

Director Beaver, if you could just clarify -- because that came up with Mr. Nixon -- the actual membership enrollment of the prosecutors' part, and where they actually fall, and what kind of benefits they receive; just because that just came up twice.

F R E D E R I C K J. B E A V E R: Certainly.

The prosecutors' part is covered under the PERS system. And there was a special provision enacted in January of 2002, I believe. It basically covered prosecutors, investigators, and certain other positions within the Department of Criminal Justice -- the Division of Criminal Justice, and also the county prosecutors' offices. It is a benefit very similar, as Mr. Nixon suggested -- very similar to the police and fire benefits. It allows retirement at 25 years. It provides for a benefit on the same level -- 65 or 70 percent of final pay. It is a very generous benefit, as I said.

The prosecutors are currently contributing 7.5 percent of pay toward that pension, which is higher than the PERS benefit. The Legislature did allow the PERS board to establish a rate that would, hopefully, cover the cost of that expense. But the first experience study has not yet been done. So we're not quite sure that 7.5 will cover the actual cost of the program. Those experience studies should be coming in very shortly.

SENATOR SCUTARI: Okay, great. Thank you, Director.

MR. GUZZO: Mr. Chairman, may I just chime in on something here?

SENATOR SCUTARI: Let me just hear from the Co-Chair for a moment. She has one question.

ASSEMBLYWOMAN POU: Just a real quick follow-up. Does that only include the prosecutors' office, or does that also include any members in the Attorney General's Office?

MR. BEAVER: In the Attorney General's Office, only those in the Division of Criminal Justice are to be covered. And we just recently got a new opinion from the Attorney General with more clarity as to who is actually eligible for the benefit. So it would actually be people in the Division of Criminal Justice with very specific titles, as provided for in the statute. So it would not be any support staff, or anybody who isn't directly involved in the prosecution of an investigation.

ASSEMBLYWOMAN POU: But how does that compare to other -- you said to very specific members in the Attorney General's Office. How does that compare with two attorney general -- or assistant and deputy attorney generals sitting right next to each other? Is there a two-tier system for them?

MR. BEAVER: The attorneys residing in the Division of Law, for example -- the AGs that handle civil matters or DAGs that handle civil matters are covered under the standard PERS benefit. So, yes, there is a differentiation in the benefit provided. The CJ side -- the Criminal Justice side -- provides -- receives the higher police- and fire-type benefit. The Division of Law receives a standard PERS benefit, like any other employee.

ASSEMBLYWOMAN POU: What was the rationale behind that?

MR. BEAVER: I wasn't here at the time. (laughter) But I believe, as Mr. Nixon suggested, there was an attempt, at one point, to have the prosecutors covered under the police and fire system. And it was objected to. And there was a subsequent piece of legislation introduced to allow them to have the similar police and fire benefit. I think the idea was -- or the original presumption was that these are the -- at the top of the food chain, in terms of law enforcement, and should receive a similar law enforcement benefit. Beyond that, I can't really tell you.

ASSEMBLYWOMAN POU: Thank you.

SENATOR SCUTARI: I see, Mr. Guzzo, you have another point you want to make.

MR. GUZZO: Yes. Let me just concur with what Mr. Nixon said. The FOP and the Professional Firefighters did not support the attempt to get them into the PFRS system. The PFRS system is designed specifically for law enforcement officers and firefighters who put their lives on the line every day -- the danger of the job. And that system is a recognition. And that's why the benefits are at that level for them. So this was not supported by any of the police and fire.

SENATOR SCUTARI: Thank you.

Senator Gormley.

SENATOR GORMLEY: CWA employees, I believe, are capped at $15,000 when they leave if they accumulate sick time or whatever. Is that correct?

MR. MASTER: Correct.

SENATOR GORMLEY: Do you think that should apply across the board to all public employees? Don't you think your employees should be-- In other words, you should apply it across the board to all unions.

MR. MASTER: I'm not prepared to venture an opinion on behalf of my colleagues, here, sitting at the table.

SENATOR GORMLEY: Okay. I'm not trying to cause dissention at the table. (laughter)

MR. MASTER: Far be it--

SENATOR GORMLEY: No, I wouldn't want to do that.

MS. POWELL: We can do that ourselves.

MR. MASTER: Solidarity forever.

SENATOR GORMLEY: Well, you weren't that solid in the last answer.

So if we have all the State employees capped at $15,000 -- and, obviously, this is a question to those representing police and fire -- shouldn't there be a $15,000 cap for local governments? Because second only to tacking, the articles that you read about hundreds of thousands of dollars being paid out are the ones that the public finds most offensive.

Would you care to answer that? Would the police and fire support a $15,000 cap?

MR. NIXON: Senator, I would say that that is something that is being negotiated locally. It's the choice-- Right now, it's the choice between a municipal governing body and their collective bargaining group.

And I would say that a great number of towns have adopted a cap, right now. So I can't speak to the specific towns, but I think that the collective bargaining process is working to cap those things now.

MR. MASTER: And that's--

SENATOR GORMLEY: All I'm saying is, I think we can simplify it for them if we made that a part of our reform package, because we have this deadline coming up. So hopefully we could do that by November, so it would simplify it, so the local entities wouldn't be put going back and forth on this. This should be something that's across the board so that all those -- all those CWA members -- their rights are parallel to the other unions.

Thank you.

Thank you, Mr. Chairman.

MS. POWELL: Can I just answer that for a moment? Because in the collective bargaining process between the State and State workers, or between what happens with different -- with the PBA -- is that, when they bargain that cap, they receive something in return. If you arbitrarily force that, then there hasn't -- you have diminished the process of collective bargaining, sir. (applause)

SENATOR GORMLEY: Can I say something?

I disagree. It was just put in the statute. And we could just put it in the statute, because it's offensive to people, the size of these buyouts. And, hopefully, when we have our Committee meeting-- (interruption from audience)

Oh, I'm sorry, everybody.

So hopefully we can make that amendment when we discuss reforms.

Thank you, Mr. Chairman.

MR. DOROW: Mr. Chairman, I'd like to comment, if I may.

SENATOR SCUTARI: Senator Gormley, thank you for your comments. (interruption from audience)

Can we have order in here, please?

Sir, you had another comment to make? Go right ahead.

MR. DOROW: I concur that it should be up to the local bargaining unit, between the board of education and the school employee. School business officials -- and I'm going to speak on behalf of our people -- are very talented people. They have to be experts in all fields from, obviously, finance to all the support operations in a school, obviously -- facilities, food service, transportation, safety issues.

And generally speaking, those school districts that retain -- that have longevity of the school business official are generally better-run school districts. So I would suggest that the employment package be negotiated between the board of education and the employee, in order that both parties are satisfied and we have longevity in the district -- the people who are responsible for the billions of dollars of taxpayers' dollars to administrate.

Thank you.

SENATOR SCUTARI: Mr. Nixon, you had another point you wanted to make.

MR. NIXON: Yes, just one final comment.

One of the reasons why we support that flexibility is that, often times in a police department -- and it certainly depends on the size of your department -- where there's understaffing, where there is conflicts with work schedules and mandatory overtime -- that, oftentimes, law enforcement officers are encouraged, "Don't take your sick time, don't take your vacation." And it accumulates. And it's not because they're looking, or intend, for some golden parachute down the line. It's just that that's the way it's been in the department they've worked in. They said, "You can't take that sick time, you can't take that vacation time. We don't have the staff. You need to work." So at the end of their career, that's provided in it.

Now, I will say -- and I don't know every contract in the State -- but I do think that that flexibility exists as a fair exchange of time that they couldn't take, that's awarded to them at the end of their employment. Now, whether that gets negotiated at the local level-- We think that every employer has the opportunity to negotiate to that right now. And those caps do exist. It's not universal that there is no cap. There are, certainly, caps throughout the State of New Jersey, or contract agreements that limit the amount of a buyout.

So I just wanted to clarify why those -- why that's kind of harder to cap in a police and fire setting.

Thank you, Senator.

SENATOR SCUTARI: Mr. Nixon, thank you for that commentary, as well.

I just want to state, for the record, that the AFSNB building trades, and the International Federation of Professional and Technical Engineers, IFPTE, were all invited today to join this panel during this initial discussion.

UNIDENTIFIED SPEAKER FROM AUDIENCE: Excuse me. No, we weren't. I'm IFPTE, and we got no invitation. We would have been prepared to speak.

SENATOR SCUTARI: We're going to look into that in a few moments. It was my understanding that you were invited. We'll find out the answer to that.

UNIDENTIFIED SPEAKER FROM AUDIENCE: Oh, okay.

SENATOR SCUTARI: But for the panelists that are here today, I thank you, all, for your discussions, your remarks, especially your answers to some of the questions from members. And, certainly, I'll take them into account when we have further discussions on these things.

So, thank you, all, for being here. I appreciate it.

MR. NIXON: Thank you.

SENATOR SCUTARI: While we're finding out that answer, with respect to that--

Okay, ladies and gentlemen, can we have our other speakers up here, please?

Kathleen Davis, Lou Neely, John Donnadio, Barbara Horl, Lynne Strickland; can you find your appropriate nametag? Christine Stearns.

Okay. Everybody seems to be in their correct place.

Ladies and gentlemen, thank you, also, for being here.

If I could hear Kathleen Davis--

If you could begin, I'd appreciate that.

KATHLEEN A. DAVIS: Thank you.

Good morning, Senator Scutari and members of the Committee.

I want to, first of all, commend you and let you know I have the utmost respect for the work that you're doing. You're delving into a very highly complex and charged issue. And you've certainly already heard hours of testimony, containing hundreds of facts, from experts on the costs associated with providing employee benefits.

I very much appreciate the opportunity to be here today to share with you the information contained in our Board Council on Responsible Government Spending report, Phase II, a copy of which you have at your places.

The perspective that I want to offer today is the experience of the private sector, and to provide a comparison of their benefits versus the public sector. In the private sector, we don't have a so-called *captive audience* of customers. We've had to get smart about controlling our expenses in order to competitively price our products and services.

And as many of you know, our chamber has been at the forefront in calling on State government to reduce expenses in order to offset the need to raise taxes. We've watched the State Interdepartmental Account, which is comprised largely of employee benefits and salary increases, grow over 70 percent over the last five years. Salaries and wages now account for 73 percent of the State's overall operating budget. And, this year, the costs associated with providing pension, salary, and health benefits to State employees increased by $592 million, accounting for 86 percent of the increased cost of all State operations. And the State provided $2.3 billion in payments to local school districts to fund retirement benefits, an increase of $823 million, about 50 percent of the last year's appropriation.

We've reached a point where the current level of benefits is simply no longer affordable. But there are steps that can be taken, incremental steps that protect retirees and current employees, to bring these benefits more in line with the private sector and those received by the taxpayers, who are paying for these benefits.

The survey we conducted earlier this year of 11 of our largest member companies looks at the total employee compensation package, not just health and retirement benefits. We also looked at salaries and paid time off, and compared them to those received by State employees covered under a current collective bargaining agreement.

In the area of salaries, we found that six of the eight job titles that we looked at-- We found that State government employees were paid at least what they made in the private sector. And, in fact, two job titles, they paid significantly more. In the area of salary increases, we found that in the current contract, State employees are eligible for a total of five salary increases -- three cost-of-living increases, and two step increases -- over the '05-'06 period. That amounts to about 15.5 percent, more than double the 7.3 percent increase received by workers in the private sector.

Paid time off is also a very important component of employee productivity. And we found that a six-year State employee is eligible to receive 47 paid days off, versus an average of 30 to 31 days for a six-year employee in the private sector. And in the area of health insurance, which of course is a huge cost and represents one of the fastest growing costs of employee benefits and overall operating costs -- and remains the most important issue facing our members, in a survey that we just completed just a few days ago-- Employee contributions to health insurance premiums and plan structure are two tools available to employers to hold the line on these costs. The charts on Pages 6, 7, and 8 clearly illustrate that State practices in this area reflect times gone by in the private sector. The State's required 5 percent contribution to its HMO plans is unmatched in the private sector, where employees pay at least 9 percent, and at most 46 percent, toward their premiums.

State employees enrolled in the point-of-service plan pay nothing toward their premium, which is, again, unheard of in our survey, which showed contributions for this type of plan ranging from 10 percent to 26 percent in the private sector.

We don't have time to cover the various benefits, including co-pays and deductibles in all of these plans, but the State's coverage is more comprehensive than just about any plan provided in the companies that we surveyed.

And, finally, in the area of retirement benefits: Needless to say, pensions are fast becoming a thing of the past, with companies moving toward 401(k)s, with contributions by both the company and the employee a typical approach. Among the many benefits of 401(k)s is that they're portable. And we believe that new employees should be required to enroll in a defined contribution system.

We also support many of the recommendations of the State Benefits Review Task Force, which we outline on Page 11 of our report.

I know my time is up. I thank you for your attention, and I'd be happy to answer any questions.

SENATOR SCUTARI: Thank you very much for your initial statement.

UNIDENTIFIED SPEAKER FROM AUDIENCE: Could you raise the volume? It's hard to hear.

SENATOR SCUTARI: Next we will hear from Christine Stearns, New Jersey Business and Industry Association.

C H R I S T I N E S T E A R N S, ESQ.: Good morning.

Thank you very much for inviting us to participate this morning.

My name is Christine Stearns. I'm the Vice President of Health and Legal Affairs for the New Jersey Business and Industry Association.

I have presented written testimony, which I'm going to try to summarize briefly in the confines of the time that we've been allowed.

And the first point that I'd like to make is to share with you the feedback that we've been hearing from our more than 23,000 members when it comes to talking about property tax reform. And the first thing that we really have heard from our members is the idea that escalating government spending -- while it's not bankrupting State government -- is, in fact, bankrupting businesses and putting them in a very difficult position. And the employers and employees, alike, are feeling the pinch. Companies are having difficulty expanding in New Jersey; and the employees have a difficult time either staying in New Jersey or certainly, if you're a company trying to attract employees into the state, it's very difficult.

The second theme that we really have heard from our members is that the compensation for government employees -- the wages and the benefits -- far exceed the compensation packages that employees in the private sector are receiving. Our members tell us that public employee compensation should reflect and be similar to that that the private sector employees are receiving, no better and no worse. And with that guidance in mind, we have some suggestions in terms of the health benefits package that the State is providing to public employees, as well as to the pension system.

In particular, we really believe that the health benefits package should reflect the health benefits package currently being received in the private sector. And that means instituting reasonable cost sharing. When you look at large employers, typical cost sharing is about 20 percent to their employees. It's been a fairly stable percentage over recent years. And we believe a similar cost sharing should be instituted for State employees and local employees.

We believe that you should also look at the deductibles and co-payments that are being seen in the State Health Benefits Plan. I think our members, when you mention a $5 co-pay, they wish they could see a $5 co-pay.

UNIDENTIFIED SPEAKER FROM AUDIENCE: We don't have a $5 co-pay.

MS. STEARNS: I'm sorry.

ASSEMBLYMAN O'TOOLE: Chair, could we have some order?

I've got to tell you something. We listened before with great respect and deference to those speakers, whether you're pro or con. I think it's amazingly disrespectful to those individuals who will not tolerate an opinion. This is a democracy, not a dictatorship. Let the people speak. Whether you disagree or not, let them speak.

SENATOR SCUTARI: Assemblyman, thank you for your comments.

Ladies and gentlemen, I believe he is correct. Please refrain or we will clear the room, and we will continue the discussion without you. So please refrain from making commentary.

And, Ms. Stearns, you can continue.

Thank you.

MS. STEARNS: Thank you, Mr. Chairman.

Again, continuing with the theme of reasonable cost-sharing, also looking to move to the preferred provider plan, a PPO, moving away from the Traditional Plan-- The private sector is no longer able to afford to provide indemnity plans to their--

I'll try to briefly summarize, and wrap up my--

SENATOR SCUTARI: You know, go ahead and just finish your commentary.

MS. STEARNS: Okay. Moving to a PPO would save the State a significant amount of money. This is something that is no longer seen in the private sector. Employers are no longer able to afford such a plan.

We also think that we need to look to have stronger management of the how the State Health Benefits Plan is run, that more authority needs to be given to the Director to be able to manage how the plan is delivered and make sure it's done in the most cost-effective way. We're seeing significant changes in the health-care system. In recent years, there's new devices on the market, new prescription drugs on the market. The State Health Benefits Plan needs to be able to more quickly respond to, sort of, the changes in the health-care environment.

We also would like to see the State Health Benefits Plan play a larger role in also ensuring greater quality in the health-care system and to the care that's being delivered to the plan participants. The State of New Jersey is spending, out of its own budget, almost $2 billion buying health-care services in the State of New Jersey. And we believe there is a way to use that spending to encourage a higher quality of care.

When it comes to the pension plan, we do believe that we should move existing public employees with less than five years of service, and all new employees, to a defined contribution plan -- I always get it wrong -- versus a defined benefit plan. This is also reflective of what the private sector is providing to their employees and has a number of advantages to the individuals, as well as to the State.

We provide some more detailed comments in the written testimony that you've received. But I'll leave it at that.

Thank you.

SENATOR SCUTARI: Thank you very much.

Next, from the Garden State Coalition of Schools, Lynne Strickland, Executive Director.

LYNNE STRICKLAND: Good morning, Senator Scutari, Assemblywoman Pou, and members of the Committee.

Garden State Coalition, currently representing approximately 350,000 school students in 110 communities across the State of New Jersey, is glad to be here with you today.

Thank you for inviting us.

We presented to the Committee -- on September 19, at the public hearing in Clifton -- regarding health benefits. And that's our focus. Health benefits are one of the biggest cost drivers in school budgets. And the cost savings districts are experiencing, we are noting, by contracting with private carriers as opposed to the State Health Benefits Plan, is clear.

And it's important for us to reemphasize that: One, nearly 60 percent of all school districts are now participating in private carrier plans. The statistical message here is loud and clear. Districts are achieving substantial cost savings in private health plans, compared to the State Health Benefits Plan, or they wouldn't have moved in such great numbers out of the plan.

Member districts focus on the local property taxpayers' burden when building their school budgets. The reality is that local costs are driven higher due to lack of flexibility in the State Health Benefits Plan, compared with options available to the districts that participate in private health carriers. So we're going to emphasize a few of these issues, and maybe a few suggestions that deal with certain costs and the lack of flexibility in the plan that you, as legislators, have the discretion to amend the State Health Benefits Plan to allow for.

For instance: opt-out incentive provisions for district employees that already have coverage, via their spouse's policy. In addition, in allowing for an op-out provision and waiver incentive, a disconcerting exception would be eliminated that's presently in the State Health Benefits Plan. Schools would be given the same cost-saving tool that municipalities, municipal authorities, and county colleges already are permitted in the same plan today.

A couple of other options you could consider-- You could consider allowing districts to negotiate with individual bargaining units regarding their plan options, rather than the Spartacus approach, which is all bargaining units have to agree to the same thing, at the same time with -- in district negotiations -- which makes it virtually impossible to opt out -- not opt out; focus on single things, and co-pays, and whatnot.

You could also allow districts to offer a variety of health insurance options, such as PPO, POS, and Traditional. A Bergen County and a Union County member district noted to us that these districts that offer PPO plans to new employees now, via private carriers, relate that the number of those employees choosing to stay in the PPO after attaining tenure, which is kind of the negotiated break point-- The number of those employees deciding to stay in PPOs is growing, rather than switching to the Traditional Plan.

I want to just give you a couple of examples of savings the districts are incurring as a result of some of these options. An Essex County district: first year savings of $250,000 due to co-pay and op-out clauses. A smaller Essex County district has a $100,000 savings, via the opt-out provision, and an additional $200,000 projected via program, premium, and flexibility in plan offerings. A Bergen County district: $250,000 in the first year due to opt-out provisions. A Morris County district: They've estimated that if they were required to return to the State Health Benefits Plan, it would cost them $500,000. Somerset County: opt-out savings of $1.1 million due to a hundred employees participating in that incentive program. They also have saved a 6 percent discount with the PPO, netting $178,000. Simply put, a Union County district said, "It is true. We have a better rate going for private health benefits."

I also want to note that there are 12 Abbott districts currently participating in the State Health Benefits Plan. Three of those -- all three of the State ops -- are in the State Health Benefits Plan. There are approximately 30,000 staff members covered under the State Health Benefits Plan in the Abbott districts. It would be interesting to know how much savings might be incurred if these districts went with private carriers. I say that kind of as a nudge.

Thank you.

SENATOR SCUTARI: Great. Thank you very much.

Barbara Horl, New Jersey School Boards Association.

BARBARA HORL: Thank you, Senator, Assemblywoman.

Good morning.

My name is Barbara Horl, as you know, and I'm the Lobbyist in the Governmental Relations department of the New Jersey School Boards Association, which is a nonpartisan federation of more than 600 school boards in the State of New Jersey. So I'm representing members of school boards across the state who are committed to providing quality education to all the children of New Jersey.

For many years, the New Jersey School Boards Association has been very concerned with the rising costs of health-care benefits and how it impacts school districts and property taxes. We understand how formidable your task is, but we believe that you can make considerable strides in providing property tax relief by helping us work intelligently and as efficiently as possible.

Rapidly rising health-care benefits directly affect labor costs, a significant part of any districts budget. We believe you can facilitate great cost savings to school districts who provide health benefits through the State Health Benefits Plan.

Things have changed over the years. In 1991, 457 school districts were part of the State Health Benefits Plan, representing 76 percent of all New Jersey districts. But because of huge increases in premiums, and the rigid nature of the plan, since the mid-'90s, 218 school districts have left the State Health Benefits Plan and have gone to private health carriers. Districts have saved millions of dollars by making this move. Clifton saved $1.5 million the year they left. That was $1.5 million in one year.

So what's wrong with the State Health Benefits Plan, and why should you support legislation to make it more flexible? What's wrong with it is that it has areas which are not subject to negotiations, and the savings that negotiations could yield. The first thing is the Plan's uniformity rule -- requires that all employees be treated equally. Lynne has referred to it. It eliminates any ability to negotiate tiered coverage or different conditions for different classifications of employees, which might be based on salaries, classifications of jobs, date of employment, things like that.

The method of paying for a dependent coverage is also controlled by the uniformity rule. It requires that employers pay the exact same percentage of the cost coverage for all dependents enrolled in the program. The payment of employees' premiums for coverage requires that employers must fully pay these premiums. The prohibition against duplicate coverage or multiple coverage is due to the uniformity rule. The complete choice of coverage is left up to the employee for the choice of insurance and the enrollment of eligible dependents. Levels of deductibles and co-pays are set by statute and, therefore, not negotiable items. Incentives for non-enrollment may not be negotiated.

In December, the Benefits Review Task Force endorsed these changes that I have mentioned. In its report, it noted that if local employees were allowed to negotiate these, and if they reached an agreement to pay even 95 percent of the cost of employee coverage, as compared to the 100 percent now, the savings would be $52 million a year. That's $52 million a year in savings to taxpayers.

It shouldn't surprise you that school districts have opted out in order to obtain flexibility for their staff and savings for taxpayers in their communities. Of the districts which have left the State Health Benefits Plan, over 80 percent have negotiated tier coverage and/or waiver incentives. And many have managed other great cost containments, too, including increasing co-pays and deductibles, and offering a managed care option only.

But school districts have been treated -- have not been treated fairly in recent years. When the law changed a few years ago, the State's ability to negotiate tiered benefits was not given to school districts, nor were school districts permitted the right to offer waivers for duplicate coverage, as the State does.

Every year, opting out of the State Health Benefits Plan becomes more attractive. We have reports of other negotiated savings that would result if you legislate the changes for schools that you have afforded the State. There's a bill, S-2163, sponsored by Senator Lesniak, which would fix the problem.

We urge all of you, and all your colleagues, to please support this bill. Pure and simple, it's a matter of fairness.

And thank you very much.

SENATOR SCUTARI: Thank you very much.

John Donnadio, New Jersey Association of Counties.

J O H N G. D O N N A D I O, ESQ.: Thank you, Mr. Chairman, and members of the Committee.

John Donnadio, New Jersey Association of Counties.

I want to thank you for allowing us this opportunity to testify. I know the Committee has heard hours of testimony over the past several weeks on what needs to be done to revise the way that public entities provide health care and manage our pension system.

So what I would like to do this morning is provide the Committee with just some specific examples of how counties have taken the initiative to save taxpayer dollars and still provide comprehensive health-care coverage for public employees.

And I'm going to start with Sussex County, because Sussex County recently decided that it was in its best interest to opt out of the State Health Benefits program. And since that time, they've been able to develop some significant cost-saving measures. In particular, they've been able to save $200,000 by authorizing or providing a monetary incentive for its employees to waive duplicate coverage. They've also saved close to $300,000 in benefit payouts by providing an incentive to their employees to choose their $1 co-pay generic prescription drug program; and, I believe, a $2 mail-order prescription drug program for a three-month supply, over a $15 co-pay for a name-brand prescription drug program. This has significantly increased their generic prescription program participation rate and will help the county when they negotiate their premium obligations in 2007.

The county also believes that they will save a significant amount of money in that they have moderated the way that they provide health benefits for new employees. In the past, under the Traditional Plan, it would cost the county approximately $18,000 a year to provide family coverage for an employee. When they hire a new employee, that employee has a choice. They may choose to participate in the Traditional Plan, or they may choose a less-expensive point of service plan that costs the county approximately $14,000 a year. If the employee chooses the Traditional Plan, they have to pay the difference between what it costs the county to provide health-care coverage under the Traditional versus the point of service plan.

And as I noted in my written statement, it's not only Sussex County, Warren County, Union County; it's Somerset County -- have a sliding scale that they've established for employees that must contribute to their health-care coverage. Somerset County's program: If an employee earns $80,000 a year or more, they have to contribute 1 percent of their salary, in excess of $15,000, to their health care. If they earn over $100,000, they have to contribute 1.5 percent, in excess of the first $50,000, to their health care. This has saved the county $3 million since 1996 -- over $300,000 a year. It's a significant cost savings. And those percentages will increase in 2007 to 1.5 and 2 percent, respectively.

Monmouth County is the only county in the State of New Jersey that does not provide health benefits to new employees upon retirement. And when I asked the Monmouth County officials how much they thought this was going to save the county over the next two to three decades, they said millions. They couldn't put their finger on it, but they said, "This will save us millions of dollars over the next 20 or 30 years."

And I'd like to comment on something that Senator Gormley mentioned before, with regard to a cap on sick time. As far as I know, every county has some type of cap, whether it may be $16,000, $17,000. Hudson County has a cap of $10,000 on sick leave payout. And I guess the point is, that if you put a cap on local governments at $15,000, you can still negotiate from there on.

So I hope our examples have been helpful.

And I will be happy to answer any questions, if I can.

Thank you.

SENATOR SCUTARI: Thank you.

And, finally, Lou Neely, from the League of Municipalities.

L. MASON NEELY: Thank you, Honorable Co-Chairmen, and Committee members, and guests.

I'm here on behalf of the League of Municipalities, the 19 affiliates.

And it's my opportunity to share with you-- Helen Yeldell, from the League, is here with me.

You focused a lot on the State problem, the State budgets. And the State does have a problem -- both health benefits- and pension-wise. But I want to focus on local government, and deal with it, specifically, dealing with property tax. And I want to talk about a couple issues.

I'm reminded that, in 1997, when NASA launched the Voyager, then-President Jimmy Carter sent a message to the alien planets. That message was humorous, because it was just symbolic and ineffective. Today, I want to give you some real choices and to let you start dealing with them.

The Division of Pensions has sent out pension bills that are due April 1, 2007. They exceed, for local government, more than $650 million. Of that, 65 percent are to fund police and fire, which represent 14 percent of the workforce. There's a problem. Police and fire gets 65 percent of the benefits, and they represent 14 percent of the workforce. Anybody knows that's illogical. It costs local government almost $10,000 for pension costs -- property taxpayers -- for a policeman; it costs them $1,000 for a PERS employee. A PERS employee -- it's reasonable to put $1,000 into their pension. It's unreasonable to spend 65 percent of your pension cost for police and fire. Address the issue.

Number two: State mandates. You have, on the books, Chapter 108, Public Laws of 2003, which will become effective when and if a certain threshold is met. That will cost, literally, hundreds of millions of dollars to property tax people. Drop that. Take that off the books before it affects individuals, the property taxpayers, or anyone in the police and fire union. Correct the situation now.

Number two (*sic*): Stop mandating legislation. It was interesting to see the police, and fire, and the FMOB (*sic*) sit up here and say they opposed expansion. They lobbied for 20 and out, which made the accrued liability. They're retiring at the average age of 49. If you look at your State Police, which have similar benefits, you have eight retired police for every 10 people working. In two or three years, you're going to have 100 percent retired for 100 percent working. The State's going to be funding two full workforces. In not too many years, if you don't change the benefit structure, the same thing is happening to local government. We're going to be supporting a whole generation of retired police and fire, while we're paying the current generation 65 percent of the benefits for 14 percent of the people. So stop mandating.

And arbitration -- binding arbitration -- is a big piece of that. Go and change the law. Why would you bind us into something and then give away benefits? And that comes to the next issue: credible salaries. The Division of Pensions, and your pension board of trustees for police and fire, have allowed police officers to roll their uniform allowance into their credible salary. Yes, we want uniform people to wear a uniform while they're on the job. But why would we pay them 65 or 70 percent of their uniform allowance for the rest of their life when they retire at age 50? Are we going to give them a uniform to sit in Florida? We should not have that part of their salary. Their sick time should not be part of that salary base. You have corrupted the definition of *credible salaries* by not enforcing it through the Division of Pensions, and not enforcing it by the board of trustees. And you've allowed your arbitrators, through binding arbitration, to cost -- raise the cost for local government significantly. It needs to be addressed.

Pension maximization: We talked about the investing of assets. The assets-- The more return on the assets, the less demand on the property taxpayer. But yet you allow police officers and firemen to receive a mortgage on their house up to $417,000 at below market cost. Indirectly, you're allowing them to be subsidized the difference between a normal market rate, and your subsidized rate that you've authorized is not taxable. You're avoiding Federal tax and State tax for them. You've, in essence, given a high-priced person a below-market subsidy, through a mortgage of $417,000. Every member of the locals out here would love to be able to get a low-cost mortgage at that level from the pension fund. But all that would do is drive up property taxes. End that provision.

PERS, TPAF, and PFRS can borrow money -- employees -- at 4 percent. Why are we having an 8.25 percent assumed interest rate, and we're allowing employees to borrow at 4 percent? End that provision. It will immediately save money for the taxpayers -- property taxpayers. The banking industry is not hurt. The financial market is healthy. Let people exercise the private sector. Stop the mortgages, stop the below-market interest loan rates, and make the assets invested into reasonable returns. And you'll help solve the State's problem, and you'll lower property taxes.

Threshold for enrollment: It's ridiculous what we have as a threshold of $1,500. What we should have is: part-time people receive part-time credits, not a full year's credit for part-time work; full-time people receive full-time credits. Take 1,820 hours -- 35 hours a week, times 52 weeks, is 1,820. If you work that or more, you receive a full year's credit for pension. If you work less, you get a prorated amount. And then you give-- Everybody has the same benefit structure under the defined benefit, but they don't get a full year's credit for working a couple hours a week. Two hours a week-- A school crossing guard, who has a post for two or four hours a week, should not receive a full annual credit towards a pension. It should be prorated based upon 1,820 hours. That will significantly reduce your actuarial's report. It will be -- directly lower your unfunded liability, and it will save property tax dollars immediately.

Early retirement initiatives have been a joke, and we--

SENATOR SCUTARI: Mr. Neely, I'm going to ask you to wrap up. You're over your--

MR. NEELY: I'm going to wrap up. Okay.

I'll skip early retirements, because you all know it's a joke. (laughter)

And we suggest that -- next biggest issue we have is disability retirement requirements. When the disability -- the Older Americans Act came and they changed the disability law-- We have a bubble of problems that have to be addressed. The Governor's report looked at it, the League's

COPE report has talked about it, the Pension is aware of it. Address the issue now, before we deal with it.

And then I'll just jump on a couple of these health benefit issues. Having someone opt out if they're in -- a teacher is working one place, and the police is working in other -- they're the same system; you have the same expense. It still goes into the system. We're experience-rated. Opt-out, only if it's not part of the same government system, is good.

And to look at some of these health benefit things, we can give you a list -- an arm's length long -- and we have.

And with that, I'd be glad to answer questions, because I'm sure I might have peaked your interest. (laughter)

SENATOR SCUTARI: Thank you.

Senator Gormley.

SENATOR GORMLEY: Just to find a common theme here-- What we're talking about is having greater flexibility to negotiate. Would that be a fair characterization among a number of the speakers?

Assemblyman O'Toole and I--

MR. NEELY: Only for State Health Benefits. They have that under every local government.

SENATOR GORMLEY: Excuse me. Trust me, I hear you. (laughter) I got it. I'm not disagreeing with you.

Assemblyman O'Toole and I have a bill prepared -- which we'll give to all of you -- which we want to introduce on Monday, which I think reflects the flexibility that you'll be seeking. We'd appreciate your input. Check in with our staff. And we will introduce it on Monday. And it reflects the flexibility that you have been talking about.

Okay?

Thank you.

SENATOR SCUTARI: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: This is more for Director Beaver.

I listened to some of the presentations, Director. This issue of flexibility-- Do we have the mechanics in place where, hypothetically, a school district wanted to remain with us, and they wanted to do different tiers or levels-- Would we be able to accomplish that? Or, in fact, could we bring them back if we have the wherewithal, with the staff, to accomplish this?

MR. BEAVER: At the present time, I'd have to say, no. And I'd like to qualify that just for a moment.

If you remember, the original design of the State Health Benefits program was to cover State employees only. It was over time that the local employers were permitted to come into the plan. So you've got one plan-- It is a problem with the flexibility issue, because it is a one-size-fits-all kind of plan, right now. And we don't have the ability to really modify the plan, under both the current regulations and the legislation, to accommodate changes.

ASSEMBLYMAN GIBLIN: What about the issue, like, in the private sector -- I guess they call them *cafeteria plans* -- where people basically pick and choose? They want dental, they don't want prescription, they want higher co-pays. I mean, is that kind of commonplace in the private sector -- cafeteria plans?

MR. BEAVER: It's very commonplace. And it's certainly something that could be done. It would take some time to accomplish it and significant changes in the standing legislation, obviously. It is very doable.

ASSEMBLYMAN GIBLIN: My only observation-- If we don't adapt, there's going to be a continual erosion of -- either counties, or boards of education, or local employers are going to go out and shop for a better plan. So I don't think we have a choice in this matter.

MR. BEAVER: Let me just qualify one concern I would have about the ability to shop around. And what we've seen, in our experience, and when we look at the data that comes back to us on the plans leaving-- The groups that leave tend to have a good experience. They've got the lower loss ratios. So they're running the 80 or 85 percent loss ratios, which means they can obtain a better deal outside.

If you look at the remaining school boards, I would argue that there's an awful lot of school boards that are running at a 97, 98, 102 percent loss ratios, that would certainly not have any financial advantage to moving outside the State Health Benefits Plan. So we pool the risk. I mean, that's part of the goal of this plan -- is to pool the risk. The people that are leaving are, really, the people that have the opportunity, with better risk, to buy it elsewhere at a lower rate. We're really just shifting more cost to those who remain within the program.

ASSEMBLYMAN GIBLIN: One final question: I can't remember which meeting you talked about this, but you talked about some type of charge, hypothetically, if a school district left the plan and they wanted to come back three or four years down the road. How would you calculate this charge? Would you look at their experience with health claims? I mean, would this be a uniform number?

MR. BEAVER: There could certainly be a methodology developed that would provide either an incentive to stay in or a disincentive to come back in, once your loss ratios rose above an acceptable level.

Again, our concern is that it is often easy to go out and buy a plan for a small group and get a favorable rate in the first or second year, and then get a couple of big shock claims that really change your total premium requirement. And those people, then, have the opportunity to come back in and then get mixed back in with the pool. So I think we need to address that through some kind of disincentive to shift those costs back to the other employers.

ASSEMBLYMAN GIBLIN: The only thing-- I listened to the representation from, I guess, the School Boards Association. And they said the number was 451, and we lost 218. That's a 50 percent dropout in a matter of five years. So if a business is losing customers, it seems to me they've got to change what -- a new way of doing business.

MR. BEAVER: Well, the other question I think you need to consider is, is that the business they should be in? That's it. Another way of looking at it, too, is-- Maybe they're moving out for a reason. Maybe the reason is a good reason.

SENATOR SCUTARI: Senator Gormley, you have another question?

SENATOR GORMLEY: Consequently, there-- I'm just reiterating what you said and what the panel has said.

There has to be, in order to be able to negotiate greater flexibility, statutory changes to the State Health Benefits Plan.

MR. BEAVER: Yes, sir.

SENATOR GORMLEY: Thank you.

SENATOR SCUTARI: Any other members have any other questions for the panelists? (no response)

Seeing none, thank you very much, all, for being here -- all the members of the panels.

SENATOR GORMLEY: Can we make--

SENATOR SCUTARI: I see you jumping up and down there, Senator Gormley. If you'd like to make a comment, feel free.

SENATOR GORMLEY: If I may explain to the members of the Committee, I've been going back and forth to the meeting on needle exchange. And, of course, I'm the only Republican vote, so I have to make sure I'm there or around. It seems to be a tradition.

I would just be curious about our schedule in the future, because we have deadlines that have been imposed. There are certain expectations. We have some disagreements, in terms of how certain things should be done, in terms of the pension system, in terms of tacking, or whatever, that was brought out yesterday. And the public has this anticipation that we're going to get something done. And I'd like to know the time frame.

For example, when will we schedule a session when we go over legislation, head-to-head, and hopefully in a positive way -- that what we're going to recommend out of this Committee? Because the deadlines have been set by the Senate President and the Speaker. And there's a lot of anticipation. And it seems a little hazy, right now.

And I'm not trying to be facetious. What's our time frame for sitting down and saying -- voting up and down on our ideas, voicing our disagreements, and moving forward? Because the complexity-- I got this legislation together on what they just talked about on flexibility. Well, the complicated nature of that bill alone-- We'd all have to sit here-- And Assemblyman Giblin's been in these negotiations a lot more than I have. This is very complex.

So what's our schedule, so we get a product out within a reasonable time, so the public knows we really tried to meet the deadline?

SENATOR SCUTARI: Well, what I can tell you is, I did have a conversation with the Senate President yesterday, with respect to the scheduling of meetings. And I expressed my concern, because I had a Commerce Committee meeting today, myself, which I was unable to attend. And we're supposed to be in special session. And this isn't so special if we have all these other meetings to go to. This is supposed to be the focus of the Legislature. But, obviously, the realities are that State business must go on.

Obviously, Senator, what I can tell you is that I plan on having more meetings, and getting together with yourself and other members of the Committee in the next, obviously, no less than -- no more than five weeks from now, and hashing out resolutions to some of these problems -- to all the problems and all the issues that have come before the board, and hopefully coming to a consensus amongst the Committee members. And if we can't, we can't -- but certainly discussing your ideas. And, obviously, some of the ideas that you have and the bills that you are considering proposing will be complicated in nature. And we're going to rely on some of our staff to digest that. But, also, for us to have our own discussions--

SENATOR GORMLEY: Is there-- If I may ask, in your conversations with the Senate President, do we have what I would call *deadline* or *date certains*, that we're going to be voting in December on bills?

I'm just saying, because we-- This is a legislatively imposed deadline. This was announced to the world in early July. And everybody's going, "When's this property tax relief going to happen?" The reality of it is, if we get to the point where we say, "Oh, well, we couldn't quite do it. It's constitutional convention time," that's the punt. They are expecting something from us. And I'd just like to know if we have a hard schedule. Because the more deadlines we have, the greater likelihood we'll have of accomplishing meaningful change.

SENATOR SCUTARI: Well, my hope in our charge is to have our recommendations completed by November 15, which is five weeks from now.

SENATOR GORMLEY: Okay.

SENATOR SCUTARI: So that does not give us a lot of time. But we've hashed out budgets over a weekend, overnight. So I hope that we can get together on that legislation.

There are many, many, many bills out there already. And our imposed deadline is November 15. Hopefully our mission will be completed, at least mostly, at that point in time.

SENATOR GORMLEY: Thank you.

SENATOR SCUTARI: Anything else?

Assemblyman Giblin, you have a--

ASSEMBLYMAN GIBLIN: Just one thing I think is important to clarify -- and I'm still hazy about this issue -- is where the Legislature fits in, where the Executive Branch fits in, where the State Health Benefits commission -- where they fit in -- about some of these issues. We need some kind of legal framework on that.

SENATOR SCUTARI: Well, as far as our Committee is concerned, we're going to make our recommendations. We're going to pass them out as any other Committee. And we're going to submit them to our respective houses for consideration when we come to those final thoughts and a majority of the members here will vote it out of Committee. And we'll submit them to their -- our respective houses, hopefully, for passage by the deadlines that this Legislature has imposed upon itself.

We do have a lot of discussions, a lot of work, and negotiations to do in the next five weeks. I'm fairly confident that we'll be able to come together, hopefully in a bipartisan fashion, to come forward with some recommendations and/or reforms that take into account all of the various interest groups that have presented today, as well as our own individual thoughts and feelings on what we think we should do to reinstitute integrity back into our respective systems.

SENATOR GORMLEY: If I may-- Not just our meetings, but a schedule of internal staff meetings to get the product ready. Because even if we're not here, the people who write the-- They should be meeting. And then we can do tacking, are we going to change the State Health Benefits Plan, flexibility, are we going to change the pension age from 55 to 60 -- all those issues. And I guess I don't want to be caught at the end going, "It's a little too complex." And I think the staff should be on it now, in terms of these agendas, not in terms--

I think we know the issues now.

SENATOR SCUTARI: Let me say, I couldn't agree with you more. And that was my concern, as I addressed it with our presiding officer -- because of the staff concerns, because they just can't do everything. They're in their regular Committee roles; they're supposed to make this a primary objective, and that's my concern. They won't have the time to dedicate to the things that we want to accomplish, because this is supposed to be the special session. But we're going to do what we can to get that done and meet those deadlines.

Assemblyman O'Toole, I know you were gone, if you have a final thought.

ASSEMBLYMAN O'TOOLE: Yes, I had a little bit of a family emergency there, and it's fine.

Now, I understand the frustration, but we're 33 days out from our self-imposed and Governor's imposed deadline. And while we have all worked very hard -- in the Assembly we don't have voting sessions, our other Committees have not met. So I think these four stand-alone Committees -- the commitment made some time ago, on the 29th of July, that these were going to be hardworking and dedicated in having the special session--

I happen to agree with Senator Gormley that we should really -- and I assume Assemblyman Giblin. We should roll up our sleeves and really press the next 33 days. I have asked that we at least, as a starting point -- from the process standpoint of drafting bills and, potentially, legislation -- is look at an enabling resolution that we've dropped. And maybe we can discuss it next Thursday, Senator, assuming that meeting is still on, as to really identifying the problem -- which I think we've gotten our arms around -- and perhaps start identifying some of these solutions. And I'm hoping, within two weeks, we'll have a bill. I know Senator Gormley and I have a bill. And I'm sure there will be a number of bills.

SENATOR GORMLEY: When you had to leave because of your call from home, we had-- A panel is going to review it, that feels very strongly about flexibility. And we're looking to have it ready for Monday.

ASSEMBLYMAN O'TOOLE: Okay.

So, again, I just want to reiterate that there is this press that we're hearing in my office, that folks are saying, "Okay. Let's see a product."

So I appreciate you hearing me out.

Thank you.

SENATOR SCUTARI: My pleasure.

Okay. Everyone, thank you very much for today's meeting.

(MEETING CONCLUDED)