

Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON PUBLIC EMPLOYEE BENEFITS REFORM

"The Committee will meet to consider its final Report"

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

DATE: November 27, 2006
1:00 p.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Nicholas P. Scutari, Co-Chair
Assemblywoman Nellie Pou, Co-Chair
Senator Ronald L. Rice
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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Report
submitted by
Joint Legislative Committee on
Public Employee Benefits Reform

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SENATOR NICHOLAS P. SCUTARI (Co-Chair): Good afternoon, everyone.

Welcome to today's meeting of the Joint Committee on Public Benefits Reform, and review. Welcome back, everyone. I want to thank everyone for their attendance.

I want to just make a few comments before I call on other members of the Committee to make their comments with respect to the Report that's been drafted.

This past July, Governor Corzine, Senate President Codey, and Assembly Speaker Roberts convened an unprecedented special session of the State Legislature to address New Jersey's property tax crisis. As part of this effort, our Committee was charged with reevaluating a system of public employee benefits that has been evolving, through legislation and negotiation, for over eight decades. With an eye toward proposing sweeping and substantive reforms, we wanted to produce a system that was affordable for the taxpayers, free from abuse, and still maintain our ability to attract and retain a talented workforce to serve the people of New Jersey.

Two weeks ago, we issued a Report that I believe fulfills these goals. All told, we made 41 recommendations, each one a building block toward restoring the public's trust and protecting the financial integrity of the system. While I don't think it's necessary to recite each item, I would like to touch upon some of the reforms that are most indicative of the Committee's robust approach, such as the elimination of so-called *pension holidays*.

In order to keep our promises to current public workers and retirees, the State must make annual and actuarially sound payments into

the current pension system. Abuses such as tacking and boosting must end; employees should be forced to designate one job for one pension only. Furthermore, part-time employees, elected officials, and political appointees should be placed in a separate, defined contribution system, reserving pensions for full-time employees only. Vendors and contractors should be out of the retirement system all together.

While we respect the collective bargaining process, we must urge Governor Corzine, as part of any contract, to require State employees to share in the cost of their health insurance premiums. Furthermore, we must give local employers participating in the State Health Benefits Program the ability for sharing in a plan that features -- with their employees in the first place.

This Committee is unequivocal about the need to honor our pension obligations to current public workers and retirees. However, we must adopt a pension benefit for future employees that is reasonable and affordable. The “n/55” multiple adopted in 2001 should be decreased to the original “n/60”, and the retirement age should be raised to 62.

Make no mistake, while there are certainly some low-hanging fruit amongst our recommendations, for the most part these are long-term solutions to long-term problems. But 10, and 20, and 30 years from now, New Jerseyans will continue to reap the benefits of these reforms, as the cost to the taxpayer is reduced and the current public workforce enjoys a reliable, stable source of retirement income.

I want to thank everyone who participated in the process for their hard work and their input, including fellow legislators from both sides of the aisle, union representatives, members of the business community. I

especially want to recognize those members of the public who took the time to contact this Committee with their views. Your letters and e-mails served as a ceaseless reminder that regardless of differing opinions, we are all New Jerseyans who care deeply about the future prosperity of our communities and our state.

I would like, also, to take this opportunity to thank Philip Murphy, Chairman of the Benefits Review Task Force; Fred Beaver, Director of the Division of Pensions and Benefits; and the Office of Legislative Services for their time and their tireless efforts; and the partisan staff from the Republican and Democratic sides, who worked tirelessly themselves to help put together this report.

Finally, I'd be completely remiss if I did not acknowledge the hard work of the Committee members themselves, especially my Co-Chair, Assemblywoman Pou. It is a testament to their commitment to the general welfare of the State of New Jersey that we were able to achieve such a high degree of consensus about what needs to be done.

With that, I look forward to the comments of my fellow Committee members. And I recognize the Co-Chair, Nellie Pou.

ASSEMBLYWOMAN NELLI POU (Co-Chair): Thank you so very much, Senator.

Good afternoon, and thank you, all, for being here. I hope you had a very enjoyable and restful Thanksgiving weekend.

It's been a real honor to be part of this very special, historic session on property tax reform. It's been truly a privilege for me to serve as Co-Chair of a Joint Committee consisting of so many distinguished colleagues.

Co-Chairman Scutari, Senator Gormley, Senator Rice, Assemblyman Giblin, and Assemblyman O'Toole, thank you so very much for your input, your ideas, and your hard work. All of our efforts, and even our varying opinions, have helped make this process work. Your work on behalf of New Jersey property taxpayers and career public employees demonstrated a shared recognition of the need to correct problems that have been decades in the making.

With this special session-- When this special session first began, we were all given a very specific task: find ways to reduce the property tax stranglehold that our residents face in their communities. Specifically, our Committee was given the task of creating short-term property tax relief and long-term property tax reform through structural changes to New Jersey's system of public employees' benefits.

Over the past three-and-a-half months, we've worked to identify the causes and effects of rising public employees' benefits costs. We took a principally two-pronged approach to our work. We sought to eliminate abuses that have undermined the financial integrity of the benefits system, while recognizing the need to protect the hard-won rights and retirement of dedicated, career public employees. I believe that the Report and the 41 recommendations before us today are in keeping with this approach.

In our seven meetings, we took testimony from pension experts, independent actuaries, the chairman of a Blue Ribbon Commission, interest group leaders, and everyday residents of New Jersey. The scope of input we received was unprecedented. Many of the ideas offered in presentations,

public testimony, and e-mails to the Committee made their way into this final Report.

The Report is also reflective of the bipartisan contributions of the Committee's membership. From the beginning of this process, Senator Scutari and I worked to include the ideas and suggestions of Senator Gormley and Assemblyman O'Toole in our work. While we do not-- While they do not agree with every recommendation and finding in this Report, the Republican input was invaluable as we worked to define the problem and craft solutions. I thank them for their hard work and their dedication to this process.

This Report contains bold recommendations like ending dual office holding and requiring public employees to select one job with which to earn pension credit. It contains commonsense recommendations, like prohibiting professional service contractors from enrolling in State-run pension systems and prohibiting public officials convicted of crimes involving their office from collecting a retirement funded by honest taxpayers. It contains recommendations for collective bargaining, asking public employees to pay a portion of their health benefits and change the calculations used to measure pension benefits. And in each instance where it asks public employees to give back, the Report demands that elected officials do the same, and rightly so.

Taken together, these reforms will usher in sweeping changes that will foster immediate and long-lasting savings. It's imperative that this Report, and it's accompanying reforms, do not collect dust.

The Public Employees Benefit System, as we currently know it, in a word, is *unsustainable*. All parties with a stake in this system must look

at it this way. Perpetuation of current practices not only would prompt higher taxes, it would push the benefits system into the abyss of a financial collapse. This would be disadvantageous to everyone: current employees, new employees, retirees, and taxpayers.

As the Report states on Page 57, the reforms recommended by this Joint Committee are overdue. Whether some of these reforms are achieved through collective bargaining rather than through legislation is less significant than they are, in fact, achieved. Quite simply, the status quo must be changed.

Now, I'm not saying that any of this is going to be easy. Some of the reforms can be achieved through legislation in short order. Others will have to wait to be addressed through the collective bargaining process. But whatever we do in the Legislature, we cannot allow ourselves to fall into the all-too-comfortable routine of lauding the release of another detailed report and having its reforms ignored or subjected to legislative inertia. That would be a huge disservice to this process, the public employees who deserve quality benefits, and the taxpayers who ultimately pay the freight.

The people of New Jersey have cried out, again and again, for property tax relief. It is high time that the Legislature delivered. These recommendations will cut the entrenched core of abuse that has been corrupting our pension and benefits system from within, giving the system the power to, once again, serve the career rank and file employees for whom it was designed.

The charge at the start of this special session was to create a series of reforms that would have lasting, positive impact on property tax

rates in this state. We have the ability to do just that, provided we have the courage and fortitude to hold the line on these reforms.

I intend to ask all legislators to support this Report and its corresponding recommendations for reform. There is no getting around the fact that our benefits system is ailing. Today, we can begin the process -- the healing process -- with a Report and recommendations that will put the benefits system on a road to recovery and long-term solvency.

Ladies and gentlemen, let me also take this opportunity to thank the many staff -- support staff -- that has helped us throughout these three-and-a-half months. As my Co-Chairman, Senator Scutari, has mentioned, I, too, would like to recognize the hard work of the Office of Legislative (*sic*) staff; the staff for both the Majority offices in both Houses, as well as the Minority; and their input and their help throughout the entire process. Thank you so very much.

And, once again, I want to just thank each of the members who have taken such a very active part in the final portion of this report.

Thank you so very much.

And at this time, I would like to recognize our next speaker, Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Sure.

Thank you, both Chairs.

I want to thank my Committee members.

When we signed up for this in June or July of this year, I didn't know where we would end. It's been an amazing hundred days. We didn't cover as much ground for some, covered too much ground for others. I think the easiest thing for us to do would be to do nothing. There is a

recognition that between the unfunded liability with health and pension, we're staring at about a \$40 billion hole that, if left unattended, would continue, just allowing a catastrophe of epic proportion that the State has never seen.

There are 41 recommendations here. And we're not going to get all the members, all segments, to agree on all of them. Senator Gormley and I have stated very publicly where we deviate from this Report. We have stated very simply that there are some recommendations that we think have not gone far enough. In particular, when you have dual office holding -- that there is a recognition that it is problematic in the future. And it's just politically difficult to try to get that through our Houses. We have to summon the courage to say dual office holding, if it is, in fact, a recognized evil in the future -- for future officials -- then we should do something to stamp it out now. I think, also, that there should be recognition that for those individuals that are drawing two public salaries or payrolls, they should designate one for pension purposes to obviate the abuses in the future.

There is a lot of work to-- And this is really Stage 1 of a four-stage organizational chart. I think we have to have -- besides this recommendation and this executive summary, that looks nice and sounds nice, we have to have a bill, or a series of bills. I suggest we're going to have to have public comment, whether in this Committee or in other Committees. And I'm hoping that the public is allowed to speak out very publicly in favor or against. And maybe we'll modify or amend some of those recommendations. At some point, we're going to have to have the

Executive Office sign off -- and sign those bills into law, and make sure that those reforms are carried out into practice.

Chair -- both Chairs -- I want to thank you, both. While it has not always been pleasant or nice, it's been a process. And you've allowed this process to take hold, you've allowed dissent on all sides. Again, while there isn't total agreement, there is agreement that the two of you have run a very professional Committee. And I think your staffers have acquitted themselves well. They've worked very well -- both the Senate and Assembly, Democrat, Republican, have worked very well.

And my recommendation is that the bill, or bills -- a series of bills -- come back. And this is a model of bipartisan government here. There's not enough of it in Trenton. There is too much Democrat blame, Republican blame. And I think while we all have partisan tags we wear during the election season, it's time for us to roll up our sleeves and get some work done.

So I would ask that we ask leadership in both Houses to come back and allow this Committee to be the recipient of the bills, so we can continue the dialogue and move this forward.

But I do want to thank you very much. And I'll have more comments, I suspect, when we come back and actually have the bills in front of us.

Thank you.

ASSEMBLYWOMAN POU: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Thank you, Assemblywoman Pou.

Good afternoon and welcome.

The Joint Legislative Committee on Public Employee Benefits Reform was given a difficult task. We were asked to identify proposals that would terminate abuses in the pension system. We were asked to reign in the high costs of public employee retirement and health-care benefits in a sensible, fair, and affordable manner.

In the course of the proceedings, many argued that New Jersey's pension system is an underfunded disaster waiting to happen. We got that message loud and clear. It is important that last year's threshold of \$1.1 billion be the minimum level for the 2000 (*sic*) fiscal year. We are confident that the recommendations contained within the report will avert a financial disaster.

There will be an opportunity for members of the public to additionally address some of the proposals that are being recommended by the Committee. This Committee's reforms will be needed to be achieved in two distinct areas: one through legislation, and the other, of course, through collective bargaining.

Speaking as a long-time labor activist and an almost 30-year trustee of a Taft-Hartley fund, that understands the importance of funding and the inherent fiduciary responsibility, I can't help but stress how cognizant Committee members were of the collective bargaining process as we weighed potential reforms. However the Joint Committee respects the collective bargaining process, the panel also recognizes the overriding need to make the State system of public employees' pensions and benefits more affordable and secure, especially as far as new employees.

The Joint Committee's recommendations identify long-term savings through a wide range of reforms while maintaining the essential

components of a competitive system of pensions and benefits for the workers who deserve it. Under the system, pension abuses and gimmicks -- especially dealing with elected officials -- will be stopped. And retirement, health care and other benefits will be made affordable for the State and for the citizens of New Jersey.

As the Report states, the reforms recommended by the Joint Committee are long overdue. We have an opportunity to take a step forward, dealing with the old, wasteful, status quo and replacing it with a fair, comprehensive approach of funding and managing benefits for our workforce throughout the government of the State of New Jersey.

This report lays out a sound plan of action, some of this to be achieved immediately through legislation and some to be negotiated towards the collective bargaining process. It is a well-thought-out approach, one that I hope will make a positive difference for the valued and trusted employees of our State, and taxpayers, for many more years to come.

ASSEMBLYWOMAN POU: Thank you, Assemblyman.

Senator Rice.

SENATOR RICE: Thank you, Madam Chair.

To both Co-Chairpersons, let me, too, commend you -- your leadership role in this task.

Let me commend the members for sticking with the mission that was put to us.

Let me also indicate, for the record, that I reserve my right to really digest the 41 or so recommendations, once the bill is out of this Committee in order for the Governor and others to take a look at it. I've also sent letters to the 14 other members of the New Jersey Legislative

Black Caucus, which I am the Chair, with the different information that didn't come up in the Committee, per se, on demographics, to be reviewed. We want to have an opportunity to meet to discuss the recommendations as it impacts on workers throughout New Jersey. I'm certain there are going to be recommendations that we can agree to, and there may be recommendations that we don't agree to. But I think we deserve that opportunity, not only looking at the workforce in New Jersey, but looking also at the demographics of the workforce throughout the state, when it comes to the Department of Human Services and some of the other areas that our people work in.

Let me also say that, unfortunately, it's just the way America is. When you're African-American, or a minority, or women, oftentimes, when you try to identify problems, people call you racist and everything else. But we have to ignore those status labels -- that's to distort. The reality is that 40-plus percent of the workforce -- 20,000 or 30,000 of those happen to be minority and women. And all of us who go to work every day, we go to work with the expectation, as young people, that the time is going to come when we raise families, and we can move away and kind of enjoy the golden years as senior citizens. But there being nothing in the (indiscernible), if you will, that we can have a meaningful life -- not necessarily a prosperous life, but a meaningful life.

And those expectations -- those of the quid pro quo -- I don't like the fact that some people, government officials and others, try to play the corporate workers against the public sector. I've been in all those venues. And I go into those venues understanding what it is I'm buying into. And then to take away some of the expectations, based on what I

thought would be available for me and others in the future, I don't think is right.

I do know, in closing -- and I raised this when we first started -- we cannot deal with issues that are basic rights. We cannot deal with issues -- from my perspective, and hopefully my caucus' perspective -- that are contractual in nature and in bargaining, in terms of where we have to go.

I am concerned about what the future is going to bring, particularly as we relate to options which my caucus members will be discussing with all the experts that you bring to us, and the people on this Committee, for a clear understanding. Because it's difficult for people, oftentimes, to invest and not knowing that that investment is secure. Our funds in the State are secured. The problem is not because of the workers in the State. The problem is because the State government -- and I was here when we did it, even though we advised others not to -- invested our funds when they should not have done those kinds of things. And so now we've got to clean up a mess that we made -- that some of you here did not make. And I want to thank you for being a part of biting the bullet to clean it up.

But I'm reserving a vote on those amendments. I will leave a vote here -- I have to go to another meeting -- to release these recommendations, to give the Governor, and the administration, and the leadership an opportunity to review them. But I also want to make sure, for the record -- that I was told I had more than enough time for my caucus to meet to discuss these recommendations. And I intend to do that. I'm known as the Senator representing the working class and the middle class in

this state; and I'm going to do it with the others too -- for those who have the least, but also as Chairman of the Legislative Black Caucus.

Thank you very much for the opportunity to participate.

ASSEMBLYWOMAN POU: Thank you, Senator.

Senator Gormley.

SENATOR GORMLEY: I want to first congratulate the Co-Chairs.

Kevin and I expressed certain differences, but the overall Report is one that memorializes recommendations that people thought never would have come out of a political process in the State. There are certain differences we have, and Kevin mentioned them -- two dealing with grandfathering. And would I have liked to have seen the entire Murphy Report adopted? Yes. But if you look at the cumulative process of what's been accomplished here, you not only are affecting savings of dollars in the long-term, you are permanently affecting the political culture of this state. The parallel of problems, with running of government, and abuses, run parallel to the running of deficits. Maybe we can call it *immoral deficit*.

But these recommendations could, in terms of how they adjust the political structure of the State-- And not to say that people who have been involved in the structure -- this isn't a broad brush on everyone. But in certain circumstances, these opportunities to engage in some of these practices have gone too far.

So I think you're to be commended for memorializing it, for being the Co-Chairs, and for voting for it. I look forward to the opportunity to look at the legislation, continue to make the points of difference that I have. But the points of difference are, quite frankly,

limited as opposed to the good that you've done by this Report. The fact that you've been willing to vote for it, the fact that you've been willing to say it, and the assurances that we have from you -- that you genuinely look forward to action being taken on this Report, once legislative leadership outlines the process in the future.

And as I said, it's not only the financial deficit that we're dealing with. We are dealing with a moral deficit. And I think this deals with it to a degree. When people-- People might disagree with some of these numbers. But the reality is this: We're broke; we're in debt; we're all against taxes. There's nowhere else to go, and we're trying to be balanced with it. And we have to address, structurally, what we have done wrong in the past. And we were left with no other honest alternative but these recommendations.

So, to the Co-Chairs, thank you.

To the Senate President, Governor Codey, I want to compliment him. I don't think-- I think the Murphy Report was as well a written report as I've ever seen, and really served as a basis for what we did and made our job a lot easier.

So I want to thank everybody. And I'm going to be casting a positive vote.

And I thank the Co-Chairs, again, for allowing us to put our recommendations in, but not doing it as a Minority report. I would prefer they be called Minority *suggestions* that were made in good faith. And they were included in a very fair way, and I thank you for that.

ASSEMBLYWOMAN POU: Thank you so very much, Senator Gormley.

Senator Scutari.

SENATOR SCUTARI: Thank you very much, Co-Chair.

The only thing I have to add and offer at this point is, I do want to thank each of the members individually. Because I think that the collaborative effort-- And I really believe that, going forward, that's going to need to continue in order for us to adopt any of the suggested reforms that are contained in this Report; that a collaborative effort between the Assembly and the Senate, Republicans and Democrats, is really what is necessary in order to have and establish any long-lasting reform. And that's really what we're looking for.

I think the Committee has done an outstanding job of working together, but also balancing the interests of all the parties that were involved: the taxpayers, our unions, our hard-working public servants on all levels of government. I think that we've recognized, and I hope that we've recognized, all of the concerns that they have, and that these long-lasting and long-term reforms will benefit them as well, as the taxpayers move forward in suring up the system that we already have; but adding integrity to the system that we have by doing away with the perceived and the real abuses that we have in the system.

So to Assemblyman Giblin and Assemblyman O'Toole, Senator Gormley, Senator Rice, and my Co-Chair, I thank each of you individually for working together as a group collectively, but, yet, individually giving us your ideas and opinions that we tried to digest and include in each of the recommendations.

I want to individually thank George LeBlanc for all the hard hours that he put in, and all the other staff that I don't mention, who really

took a lot of time in putting this -- putting the nuts and bolts together to the Report, typing it out, and getting it out on time.

So I thank each and every one-- And I appreciate that. And I look forward to doing continued good work in the future.

ASSEMBLYWOMAN POU: Thank you, Senator Scutari.

Before I ask for a motion to move, I just want to, also -- because I would be remiss if I did not acknowledge our staff from the Assembly office -- Aaron Binder and Karina Fuentes, who have worked an enormous -- and tirelessly -- enormous amount of hours that they've put in. Beyond hours when all of us were probably asleep, they were still working here at the State House. So I just want to personally say thank you, to each and every one of you.

I know John, from the Republicans -- a staffer -- and all of you-- Thank you. Because I know the late hours that all of you put in.

At this time, I'd like to ask for a motion to move the Report.

SENATOR SCUTARI: I'll move the Report.

ASSEMBLYWOMAN POU: It's been moved by my Co-Chairman, Senator Scutari.

Second?

SENATOR GORMLEY: Second.

ASSEMBLYWOMAN POU: Seconded by Senator Gormley.

Roll call, please.

MS. ESPENSHADE (Committee Aide): On the motion to release the report, Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Yes.

MS. ESPENSHADE: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Yes.

MS. ESPENSHADE: Senator Gormley.

SENATOR GORMLEY: Yes.

And I also want to thank Laurine Purola, who really did a great job for us also.

Yes.

MS. ESPENSHADE: Senator Rice indicated he abstains at this point.

Co-Chair Pou.

ASSEMBLYWOMAN POU: He doesn't abstain. He's reserving his--

SENATOR SCUTARI: I thought he said yes, without recommendation.

SENATOR GORMLEY: Yes, without recommendation.

MS. ESPENSHADE: All right.

Senator Rice is yes, without recommendation.

Co-Chair Pou.

ASSEMBLYWOMAN POU: Yes.

MS. ESPENSHADE: And Co-Chair Scutari.

SENATOR SCUTARI: I'll vote yes.

I do want to thank Christian Martin, as well. I forgot to mention him. I know that he was put in a--

SENATOR GORMLEY: Guilt is taking us over now, isn't it?
(laughter)

SENATOR SCUTARI: He was putting a lot of hours in with George. And I did forget him. But my thanks to him, as well.

And my vote is affirmative.

Members of the Committee, thank you all for being here.

Members of the public, thank you.

We're adjourned for now.

(MEETING CONCLUDED)