

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 1675
STATE OF NEW JERSEY
221st LEGISLATURE

DATED: JUNE 26, 2024

SUMMARY

- Synopsis:** Extends membership in TPAF to seven years after discontinuance of service and to 25 years for those who were laid off or had 10 or more years of continuous service upon voluntary termination.
- Type of Impact:** Annual increased State employer contributions from the General Fund for TPAF and increased expenditures from the Pension Fund to pay higher TPAF retirement allowances.
- Agencies Affected:** Division of Pensions and Benefits in the Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
Increased State Employer Contributions to TPAF	Indeterminate
Increased Teachers' Pension and Annuity Fund Retirement Allowance Payments	Indeterminate

- The Office of Legislative Services (OLS) finds the provisions of the bill that extend the length of time a teacher remains a member of the retirement system and the provisions that allow a teacher to be re-enrolled in their previous membership tier create an unfunded liability for the Teachers' Pension and Annuity Fund. This is because the teacher would receive enhanced benefits upon their return, which increases the fund's liabilities but for which no equal amount of assets to cover those liabilities have been deposited. This unfunded liability reduces the funded ratio of the system accordingly.
- The bill prohibits these costs to be assessed on the member or the member's employer. Therefore it is assumed that the State would pay the member's share of the unfunded liability in addition to its actuarially determined annual employer contribution to the Teachers' Pension and Annuity Fund.
- Increases in benefit factors increase retirement allowances, therefore retirement allowances paid out of the pension fund to the teachers who return to service under the bill would be higher.

BILL DESCRIPTION

This bill would allow a teacher whose contributions towards their pension as a member of the Teacher's Pensions and Annuity Fund State-administered Retirement System to remain a member of the system for a period of up to seven years after leaving their position before the State is required to send the contributions to the member and terminate their membership in the system. In addition, the bill would allow the continuation of the membership of a teacher who is dismissed under certain circumstances or a teacher who leaves service after ten years of continuous service, is vested, defers retirement, and has not withdrawn their contributions from the retirement system, but returns to service within 25 years of leaving. The bill would allow a teacher who returns to service within the appropriate timeframes to be re-enrolled in the Teachers' Pension and Annuity Fund retirement system in the same membership tier as they were in before leaving. The bill would also apply retroactively and allow a teacher who returned to service prior to the effective date of this bill and within the timeframes and requirements established in the bill to be re-enrolled in the same membership tier as they were in before leaving. For example, a teacher who leaves service to raise a family and does not withdraw their employee contributions, could return to work within a seven year timeframe and maintain their membership tier status upon re-enrollment. Likewise, a vested teacher who defers retirement could leave service and could return to work within a 25 year timeframe and maintain their membership tier status upon re-enrollment.

Under current law, teachers have two years to return to service before their employee contributions are returned and their membership in the system is terminated. Vested teachers who have deferred retirement, and have not withdrawn their contributions have 10 years to return to service before their membership in the system is terminated.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS finds the provisions of the bill that extend the length of time a teacher remains a member of the retirement system and the provisions that allow a teacher to be re-enrolled in their previous membership tier create an unfunded liability for the Teachers' Pension and Annuity Fund. This is because the teacher would receive enhanced benefits upon their return, which increases the fund's liabilities but for which no equal amount of assets to cover those liabilities have been deposited. Instead those liabilities would be funded over time through increased State employer contributions. The increased liability reduces the funded ratio of the system accordingly. The size of the unfunded liability is dependent on the tier into which the member would be re-enrolled. If a member returns to tier one instead of tier five the unfunded liability would be greater. If a member returns to tier four instead of tier five the unfunded liability would be smaller.

Because the bill prohibits additional contributions to be imposed on the member and the member's employer, it is assumed that the State will pay the increase in the employee contribution

from being placed in a tier with a higher benefit factor, in addition to its actuarially determined annual employer contribution to the Teachers' Pension and Annuity Fund. Increases in benefit factors increase retirement allowances, therefore retirement allowances paid out of the pension fund to the teachers who return to service under the bill would be higher.

Section: Legislative Budget and Finance Office

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).