



**NEW JERSEY STATE CHAMBER OF COMMERCE**  
**Testimony Before the Assembly Budget Committee**  
June 19, 2008

**Concerning Public Employee Benefit and Pension Reforms**

Presented by: Jim Leonard, Senior Vice President Government Relations

Thank you Chairman Greenwald and members of the Assembly Budget Committee for the opportunity to be here today. On behalf of the employers who make up the State Chamber and the local and regional chambers of commerce that are part of our chamber network, let me highlight for you why we wholeheartedly support the public employee benefit and pension reform package before you today.

I need to preface my testimony with a comment about the public servants and employees of the state. Our support for this package of bills is not intended in any way to insult or comment on the work ethic of these individuals. After all, they teach our children, keep our streams clean, and generally help us navigate through the bureaucratic maze of government. This isn't about what someone is worth – it is about what we the taxpayers can afford to pay, and what is fair compensation for a job that is done.

The benefits crisis in New Jersey is a tremendously difficult issue - one that can only be solved by everyone working together to find innovative and dynamic solutions. I first said this in my testimony before the Benefits Review Task Force almost three years ago to this day and the same still holds true. As you know better than most, New Jersey's long-term budget forecast is seriously threatened by the state's current policies toward public employee health benefits and pensions. The State Chamber thanks the sponsors of these bills for recognizing this serious issue and for proposing solutions to this ever-growing problem.

Let me be blunt. There are no silver bullet answers to the crisis you have been charged with addressing. There are no quick fix answers to the growth of benefit and pension costs. The legislative solutions you have proposed today will require political courage and shared sacrifice in order to stem the growth of benefit and pension costs. The unfunded liability faced by the tax payers of New Jersey - \$25 billion for pensions and \$60 billion for health care – must not be allowed to increase. If these bills do not become law, benefit costs in the year 2010 will represent more than 20% of the state budget, limiting the ability of government to provide services for the residents and employers of New Jersey.

Based on my discussions with State Chamber members I offer the following thoughts and suggestions with regard to the bills before you today:

**S-1962** requires employees to work at least 30 hours a week and earn more than \$5,000 to receive pension credit. While the past practice of allowing a pension credit for a teacher who earns as little as \$500 might have been necessary to attract teachers, it is no longer needed. In order to encourage the use of part-time employees by municipalities and colleges, the bill allows those individuals who work less than 35 hours a week to contribute to a defined contribution plan and obtain pension benefits in a way that is consistent with the private sector. The Chamber believes that part-time employees should only be eligible for part-time retirement benefits.

**S-1963** requires workers eligible for health care benefits from more than one government entity to choose coverage from only one. This bill, like most of the bills presented today, falls into the category of common sense. The taxpayers of New Jersey should not be required to pay for duplicative health coverage.

**S-1964** changes the formula for determining pension benefits so that benefits would be based on the five highest salary years. While we support this bill today we would argue it doesn't go nearly far enough. Pension benefits should be based on the actual cumulative salary history of the employee and not on a formula that provides the employee with a lottery payout simply because they were able to obtain a high paying job for a few years at the end of their career.

**S-1965** allows retiree health benefit credits only if the employee puts in more than 35 hours a week. The threshold of 35 hours is consistent with what most would define as a full time employee, and health benefits should primarily be reserved for full time workers.

**S-1966** bans the purchase of out-of-state pension credits for use in qualifying for state health benefits upon retirement. The taxpayers of New Jersey shouldn't be responsible for paying for lifetime health benefits for someone who was employed in another state.

**S-1969** requires payouts for new employees covered by the state employee or teacher retirement pension based on only one job. The practice of allowing for a pension for each job held by an individual should be eliminated, and this bill would do just that.

There are more reforms we would like to see. The State should stop the practice of regularly increasing health benefits without asking for an equal increase in cost sharing. The State should do away with the defined benefit pension plan in total for all new employees. And the State should increase the retirement age to match the current social security retirement age. While we would like to see the reforms go even further, these bills represent a significant step in the right direction.

I think it is appropriate to comment briefly on the overall package and two false statements that have been made about the bills being discussed today. First, these reforms impact future employees who have yet to join the ranks of the public employee sector. Almost all these bills have zero impact on the current employee base. Second, these bills attack the abuse that has been

allowed to go on in the pension and benefit systems for too long. I find it surprising that certain unions would spend over \$1 million dollars on ad campaigns that defend a system filled with fraud and abuse. Hopefully the wishes of the over 6 million taxpayers who have to shoulder the burden of the pension and health benefits costs – and not the interests of a select group of union workers – will succeed in this debate.

In closing, let me say that the salary and benefits package enjoyed by the public sector employees of today is significantly higher than that of the private sector. Perhaps this explains why the only job growth in New Jersey in recent months has been in the public sector. To illustrate this point I have attached to my testimony a copy of an article from the February 1 edition of USA Today. This article documents the fact that the days of the poorly paid government employee is over, with the average hourly wage of public employees more than \$10 per hour higher than their private sector counterparts. Critics would argue that this gap is because the private sector doesn't pay what they should, but in reality this gap is because the private sector faces competitive market forces not encountered in government. With no competition and little political will to slow the increases, pay and benefits have eclipsed the private sector.

I would ask that the members of the Assembly Budget Committee vote in favor of the bills presented today. These are reform measures the taxpayers of New Jersey – present and future - can't afford to do without. Stand strong with your convictions. Stand strong with the bipartisan reform package that has been proposed. And stand strong for the taxpayers of the state.

Thank you for your time, and I would be happy to take any questions from members of the Committee.

# State, local government workers see pay gains

By [Dennis Cauchon](#), USA TODAY February 1-3, 2008

State and local government workers are enjoying major gains in compensation, pushing the value of their average wages and benefits far ahead of private workers, a USA TODAY analysis of federal data shows.

The gap is widening every year, rising by an average \$1.02 an hour last year and \$2.45 an hour over the past three years. The better pay and benefits for public employees come as private-sector workers face stagnant wages and rising unemployment.

State and local government workers now earn an average of \$39.50 per hour in total compensation, reports the Bureau of Labor Statistics (BLS). Private workers earn an average of \$26.09 an hour.

Benefits are a big reason for the gap.

Companies have trimmed pension benefits and asked employees to pay a greater share of medical costs.

Few governments have imposed similar cuts on teachers, snowplow drivers, lawyers and other civil servants.

From 2000 to 2007, public employees enjoyed a 16% increase in compensation after adjusting for inflation compared with 11% for private workers.

The nation has 20 million state and local government employees. About 116 million people work in the private sector. The 2.7 million federal workers are not included in the BLS compensation data.

Traditional pensions and medical coverage for retirees are among the benefits making it more lucrative to work in government, says Ken McDonnell, program director of the non-partisan Employee Benefit Research Institute of Washington, D.C.

State and local governments have more than \$1 trillion in unfunded liabilities for pensions and retirement medical benefits for public employees. A few governments are discussing how to cut costs:

- Rhode Island.** Gov. Donald Carcieri, a Republican, wants to limit benefits and increase hours for state workers.
- Ohio.** Gov. Ted Strickland, a Democrat, plans to sign legislation next week that will reduce the value of retiree medical benefits for newly hired school employees, excluding teachers. The law would push back early retirement ages for bus drivers, custodians and other school workers.
- California.** The Orange County Board of Supervisors voted Tuesday to sue to repeal pension increases granted earlier to sheriff's deputies.

"If there's a benefit gap, it's because the private sector is going the wrong way by cutting benefits," says Paul McKenna, research director of the Oregon Public Employees Union.

WIDENING GAP		
Average hourly wages:		
Year	Public	Private
2007	\$39.50	\$26.09
2004	\$34.72	\$23.76

Source: Bureau of Labor Statistics