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Acting Director

July 14, 2011

**TO:** Certifying Officers of the Public Employees' Retirement System and Teachers' Pension and Annuity Fund

**FROM:** Florence J. Sheppard   
Acting Director, Division of Pensions and Benefits

**SUBJECT: Chapter 78, P.L. 2011 — Pension Changes for the Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF)**

Governor Christie recently signed **Chapter 78, P.L. 2011**, into law which implements changes to the State-administered retirement systems. This letter addresses the changes specific to the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF). **Chapter 78, P.L. 2011 became effective June 28, 2011.**

**Note:** This letter addresses pension-related changes under Chapter 78, P.L. 2011. Information about changes to employee health benefits will be provided through separate correspondence.

### **PERS AND TPAF EMPLOYEE CONTRIBUTION RATES**

Under the provisions of Chapter 78, P.L. 2011, PERS and TPAF employee pension contribution rates will increase from 5.5% to **6.5%** of salary. An *additional* increase to be phased over the next 7 years will bring the total pension contribution rate to **7.5%** of salary.

**For PERS Prosecutors Part members** the employee pension contribution rate will increase immediately from 8.5% to **10%** of salary.

The increases under Chapter 78 are effective immediately but begin upon implementation of necessary administrative changes. The first year increases shall begin as indicated below and subsequent years shall be effective each July.

- **For State employees paid through the State Centralized Payroll Unit and State Colleges and Universities reporting on a biweekly payroll schedule**, the first phase of the increase to **6.5%** is to become effective with Pay Period #21 (begins September 24, 2011 and reflected in the October 14, 2011 check date).
- **For all other employees**, the increase to **6.5%** is to be effective with the first payroll amount to be paid *on or after* October 1, 2011 (which is reported to the Division of Pensions and Benefits as compensation during the 4th calendar quarter of 2011).

- **The second phase of the contribution rate increase** from 6.5% to **7.5%** is to be phased in equally over a 7-year period beginning July 2012. The contribution rate will increase by 0.14% each year\* with the first payroll of July until the 7.5% contribution rate is reached in July 2018.

*\*For example, 6.64% in July 2012, 6.78% in July 2013, 6.92% in July 2014, etc. until it reaches 7.5% in 2018.*

The increase in the PERS or TPAF employee contribution rate will also increase the minimum repayment amount for pension loans or the cost for a purchase of service credit if certified after the employee's increased contribution becomes effective.

## **NEW PERS AND TPAF MEMBERSHIP TIER**

**Tier 5 Membership** — Chapter 78 establishes new retirement criteria for employees enrolled in the PERS or TPAF *on or after* June 28, 2011. The new category of membership will be referenced in the Division's publications as **Tier 5 Membership**.

The **enrollment criteria** and **maximum salary limits** for PERS and TPAF Tier 5 members are *identical* to those of PERS and TPAF **Tier 4** members (established under the provisions of Chapter 1 and 3, P.L. 2010 — a chart which compares PERS and TPAF Membership Tiers is enclosed for reference).

***IT IS IMPORTANT TO NOTE*** that the enrollment and retirement provisions for current employees enrolled in **PERS or TPAF Tier 1, 2, 3, or 4 membership** remain ***unchanged*** by the provisions of Chapter 78, P.L. 2011.

## **PERS AND TPAF RETIREMENT**

The following changes were made to *retirement benefits* for **PERS and TPAF Tier 5 members**:

**Service Retirement** — The Service Retirement age for PERS or TPAF **Tier 5** members is *increased* to **age 65**. The Service Retirement formula is:

$$\text{The Annual Benefit} = \text{Years of Service} / 60 \times \text{Final Average Salary}$$

***Final Average Salary*** for a PERS or TPAF Tier 5 member is the same as that for a Tier 4 member — the average salary for the **60 months** (50 months for employees with 10 month contracts) immediately preceding retirement **or** the five highest fiscal years (July - June) of salary.

**Deferred Retirement** — This type of retirement uses the Service Retirement age and formula (above). Therefore, a PERS or TPAF **Tier 5** member, with at least 10 years of service, who terminates covered employment and applies for a Deferred Retirement would become eligible to receive a benefit starting the 1<sup>st</sup> of the month after reaching **age 65**.

**Early Retirement** — Available to PERS and TPAF **Tier 5** members who have *at least 30 years* of service credit. The Early Retirement benefit uses the Service Retirement formula (above) but is permanently reduced by **3%** for each year (1/4 of 1% per month) that the Tier 5 member is *under* age **65** at the time of retirement.

**Veteran Retirement** — Chapter 78 did not make any changes to PERS or TPAF Veteran Retirement. For more information about this type of retirement, see the *PERS* or *TPAF Member Handbook*.

### **TRANSFER OF PERS OR TPAF MEMBERSHIP AND RETURN TO EMPLOYMENT FROM RETIREMENT**

A PERS or TPAF member enrolled *before* June 28, 2011, who transfers employment within the PERS or TPAF, respectively, will retain his or her original membership tier status provided that there has not been a break in membership (two years or more without a pension contribution and/or the member has not withdrawn his or her PERS or TPAF account).

If there has been a break in membership, the member has withdrawn his or her account, **or** the member is a PERS or TPAF *retiree* who is returning to PERS or TPAF covered employment (except for disability retirees approved for return to active employment), upon meeting the eligibility requirements, the member will be regarded as a *new* enrollee; whereupon, the provisions of Chapter 78, P.L. 2011, will apply and *the employee will be reenrolled in the PERS or TPAF membership tier in effect at the time of reenrollment (currently Membership Tier 5)*.

### **COLA SUSPENDED FOR ALL RETIREES**

Under a provision of Chapter 78, P.L. 2011, **Cost-of-Living Adjustments (COLA) are suspended** for all current and future retirees of all retirement systems — including the PERS and TPAF. There is no reduction to any COLA increases that were already added to retiree benefits prior to the effective date of the law.

Chapter 78 also provides for the establishment of Pension Committees which may consider reinstating the COLA when the retirement system reaches a “target funded ratio” established by the law. At that time, the Pension Committees are to give the reactivation of the COLA priority consideration.

**Note:** “Target funded ratio” means a ratio of the value of assets against the accrued liabilities of 75% and increasing annually by equal increments over seven fiscal years to a ratio of 80%.

### **ADDITIONAL INFORMATION**

This letter is intended to provide employers with a general overview of the changes put into place by Chapter 78, P.L. 2011. Additional administrative information will become available as the Division of Pensions and Benefits completes the procedural and programming changes needed to implement the provisions of this legislation.

When available, revised publications and forms will be posted to the Division of Pensions and Benefits Web site at: [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions)

If you have general questions regarding Chapter 78, P.L. 2011, or any of the information provided in this letter, contact the Division’s Employer Education Unit at (609) 292-7524, or e-mail the Division at: [pensions.nj@treas.state.nj.us](mailto:pensions.nj@treas.state.nj.us)

Enclosure

*PERS and TPAF Membership Tier Enrollment and Retirement Chart*

**PERS AND TPAF SALARY OR HOURS REQUIREMENTS FOR ENROLLMENT BY MEMBERSHIP TIER**

All other PERS or TPAF enrollment requirements must be met in addition to minimum hours or salary

	<b>TIER 1</b> (Enrolled <i>before</i> July 1, 2007)	<b>TIER 2</b> (Eligible for enrollment <i>on or after</i> July 1, 2007 and <i>before</i> November 2, 2008)	<b>TIER 3</b> (Eligible for enrollment <i>on or after</i> November 2, 2008 and <i>on or before</i> May 21, 2010)	<b>TIER 4</b> (Eligible for enrollment <i>after</i> May 21, 2010 and <i>before</i> June 28, 2011)	<b>TIER 5</b> (Eligible for enrollment <i>on or after</i> June 28, 2011)
<b>PERS</b>	<p>Minimum base salary of \$1,500 required for PERS Tier 1 enrollment.</p> <p>IRS Annual Compensation Limit on maximum salary generally apply (\$245,000 in 2011, 2010, and 2009;* \$230,000 in 2008).</p>	<p>Minimum base salary of \$1,500 required for PERS Tier 2 enrollment.</p> <p>PERS salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>PERS members are eligible for participation in the Defined Contribution Retirement Program (DCRP) for salary over the maximum wage limit.</p>	<p>Minimum base salary required for PERS Tier 3 enrollment. (\$7,700 in 2011 and 2010; \$7,500 in 2009 and 2008; subject to adjustment in future years.)</p> <p>Employees with base salary between \$5,000 and current minimum PERS Tier 3 salary are eligible for participation in the Defined Contribution Retirement Program (DCRP).</p> <p>PERS salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>PERS members are eligible for participation in the DCRP for salary over the maximum wage limit.</p>	<p>PERS Tier 4 enrollment requires a minimum of 35 hours per week for State Employees, <b>or</b> 32 hours per week for Local Government or Local Education Employees.</p> <p><b>No minimum salary requirement.</b></p> <p>Employees who do not work the minimum required hours but who earn base salary of at least \$5,000 are eligible for participation in the Defined Contribution Retirement Program (DCRP).</p> <p>PERS salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>PERS members are eligible for participation in the DCRP for salary over the maximum wage limit.</p>	<p>PERS Tier 5 enrollment requires a minimum of 35 hours per week for State Employees, <b>or</b> 32 hours per week for Local Government or Local Education Employees.</p> <p><b>No minimum salary requirement.</b></p> <p>Employees who do not work the minimum required hours but who earn base salary of at least \$5,000 are eligible for participation in the Defined Contribution Retirement Program (DCRP).</p> <p>PERS salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>PERS members are eligible for participation in the DCRP for salary over the maximum wage limit.</p>
<b>TPAF</b>	<p>Minimum base salary of \$500 required for TPAF Tier 1 enrollment.</p> <p>IRS Annual Compensation Limit on maximum salary generally apply (\$245,000 in 2011, 2010, and 2009;* \$230,000 in 2008).</p>	<p>Minimum base salary of \$500 required for TPAF Tier 2 enrollment.</p> <p>TPAF salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>TPAF members are eligible for participation in the Defined Contribution Retirement Program (DCRP) for salary over the maximum wage limit.</p>	<p>Minimum base salary required for TPAF Tier 3 enrollment. (\$7,700 in 2011 and 2010; \$7,500 in 2009 and 2008; subject to adjustment in future years.)</p> <p>Employees with base salary between \$5,000 and current minimum TPAF Tier 3 salary are eligible for participation in the Defined Contribution Retirement Program (DCRP).</p> <p>TPAF salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>TPAF members are eligible for participation in the DCRP for salary over the maximum wage limit</p>	<p>TPAF Tier 4 enrollment requires a minimum of 35 hours per week for State Employees, <b>or</b> 32 hours per week for Local Education Employees.</p> <p><b>No minimum salary requirement.</b></p> <p>Employees who do not work the minimum required hours but who earn base salary of at least \$5,000 are eligible for participation in the Defined Contribution Retirement Program (DCRP).</p> <p>TPAF salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>TPAF members are eligible for participation in the DCRP for salary over the maximum wage limit.</p>	<p>TPAF Tier 5 enrollment requires a minimum of 35 hours per week for State Employees, <b>or</b> 32 hours per week for Local Education Employees.</p> <p><b>No minimum salary requirement.</b></p> <p>Employees who do not work the minimum required hours but who earn base salary of at least \$5,000 are eligible for participation in the Defined Contribution Retirement Program (DCRP).</p> <p>TPAF salary limited to Social Security maximum wage (\$106,800 in 2011, 2010, and 2009; \$102,000 in 2008).</p> <p>TPAF members are eligible for participation in the DCRP for salary over the maximum wage limit.</p>

\*For "grandfathered" individuals at employers that adopted Ch 113, P.L. 1997, the Tier 1 maximum salary is \$360,000 for 2011, 2010, 1nd 2009.

**PERS AND TPAF RETIREMENT BENEFITS BY MEMBERSHIP TIER**

	<b>TIER 1</b> (Enrolled <i>before</i> July 1, 2007)	<b>TIER 2</b> (Eligible for enrollment <i>on or after</i> July 1, 2007 and <i>before</i> November 2, 2008)	<b>TIER 3</b> (Eligible for enrollment <i>on or after</i> November 2, 2008 and <i>on or before</i> May 21, 2010)	<b>TIER 4</b> (Eligible for enrollment <i>after</i> May 21, 2010 and <i>before</i> June 28, 2011)	<b>TIER 5</b> (Eligible for enrollment <i>on or after</i> June 28, 2011)
<b>SERVICE RETIREMENT</b>	Minimum age of <b>60</b> , no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Minimum age of <b>60</b> , no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Minimum age of <b>62</b> , no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Minimum age of <b>62</b> , no minimum service required. Annual Benefit = Years of Service ÷ <b>60</b> X Final Average ( <b>5</b> yrs.) Salary.	Minimum age of <b>65</b> , no minimum service required. Annual Benefit = Years of Service ÷ <b>60</b> X Final Average ( <b>5</b> yrs.) Salary.
<b>DEFERRED RETIREMENT</b>	Collectable at age <b>60</b> , at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Collectable at age <b>60</b> , at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Collectable at age <b>62</b> , at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Collectable at age <b>62</b> , at least 10 years of service required. Annual Benefit = Years of Service ÷ <b>60</b> X Final Average ( <b>5</b> yrs.) Salary.	Collectable at age <b>65</b> , at least 10 years of service required. Annual Benefit = Years of Service ÷ <b>60</b> X Final Average ( <b>5</b> yrs.) Salary.
<b>EARLY RETIREMENT</b>	At least 25 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary. No minimum age; however, if <b>under age of 55</b> , the benefit is reduced 3 percent per year (1/4 of 1 percent per month) for each year under age 55.	At least 25 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary. No minimum age; however, if <b>under age of 60</b> , the benefit is reduced 1 percent per year (1/12 of 1 percent per month) for each year under age <b>60</b> but over age 55; <b>and</b> 3 percent per year (1/4 of 1 percent per month) for each year under age 55.	At least 25 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary. No minimum age; however, if <b>under age of 62</b> , the benefit is reduced 1 percent per year (1/12 of 1 percent per month) for each year under age <b>62</b> but over age 55; <b>and</b> 3 percent per year (1/4 of 1 percent per month) for each year under age 55.	At least 25 years of service required. Annual Benefit = Years of Service ÷ <b>60</b> X Final Average ( <b>5</b> yrs.) Salary. No minimum age; however, if <b>under age of 62</b> , the benefit is reduced 1 percent per year (1/12 of 1 percent per month) for each year under age <b>62</b> but over age 55; <b>and</b> 3 percent per year (1/4 of 1 percent per month) for each year under age 55.	At least <b>30</b> years of service required. Annual Benefit = Years of Service ÷ <b>60</b> X Final Average ( <b>5</b> yrs.) Salary. No minimum age; however, if <b>under age of 65</b> , the benefit is reduced 3 percent per year (1/4 of 1 percent per month) for each year under age <b>65</b> .
<b>VETERAN RETIREMENT</b>	At least 25 years of service at age 55 or older; <b>or</b> at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; <b>or</b> At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; <b>or</b> at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; <b>or</b> At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; <b>or</b> at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; <b>or</b> At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; <b>or</b> at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; <b>or</b> At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; <b>or</b> at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; <b>or</b> At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.

<b>PERS AND TPAF DISABILITY RETIREMENT BENEFITS BY MEMBERSHIP TIER</b>					
	<b>TIER 1</b> (Enrolled <i>before</i> July 1, 2007)	<b>TIER 2</b> (Eligible for enrollment <i>on or after</i> July 1, 2007 and <i>before</i> November 2, 2008)	<b>TIER 3</b> (Eligible for enrollment <i>on or after</i> November 2, 2008 and <i>on or before</i> May 21, 2010)	<b>TIER 4</b> (Eligible for enrollment <i>after</i> May 21, 2010 and <i>before</i> June 28, 2011)	<b>TIER 5</b> (Eligible for enrollment <i>on or after</i> June 28, 2011)
<b>ORDINARY DISABILITY RETIREMENT</b>	If approved: Annual benefit = 43.6 percent X Final Average (3 yrs.) Salary.	If approved: Annual benefit = 43.6 percent X Final Average (3 yrs.) Salary.	If approved: Annual benefit = 43.6 percent X Final Average (3 yrs.) Salary.	<b>NOT AVAILABLE</b> PERS Tier 4 members may be eligible for Disability Insurance Coverage.	<b>NOT AVAILABLE</b> PERS Tier 5 members may be eligible for Disability Insurance Coverage.
<b>ACCIDENTAL DISABILITY RETIREMENT</b>	If approved: Annual Benefit = 72.7 percent X Annual Salary at time of accident.	If approved: Annual Benefit = 72.7 percent X Annual Salary at time of accident.	If approved: Annual Benefit = 72.7 percent X Annual Salary at time of accident.	<b>NOT AVAILABLE</b> TPAF Tier 4 members may be eligible for Disability Insurance Coverage.	<b>NOT AVAILABLE</b> TPAF Tier 5 members may be eligible for Disability Insurance Coverage.