Pension funding and the solvency of New Jersey's public pension system has been a crushing taxpayer burden and our state's greatest fiscal challenge. After decades of rosy assumptions and underfunding, the state system had run up an estimated unfunded liability of $49 billion, constraining New Jersey's budget and viewed by Wall Street rating agencies and bondholders as a fiscal albatross on the State's finances.

Fortunately, the Legislature recently passed a unique proposal announced by Governor Christie in February, to dedicate Lottery revenues to the State pension or Retirement System, an innovative and responsible action that immediately reduces the system's unfunded liability and elevates its Funded Ratio while reducing the General Fund obligation to the system.

Senate Bill 3312, the bipartisan Lottery Enterprise Contribution Act, signed into law by Governor Christie on July 4, is a bold and necessary measure to ensure the viability of the State's Retirement System, protect the public pensions of more than 760,000 State employees and retirees, and substantially reduce unfunded liabilities. The transaction, which makes the New Jersey Lottery an asset of certain State retirement systems for a period of 30 years, will go a long way toward solving New Jersey's greatest financial obstacle by delivering a dramatic and steady increase in funding.

The Lottery Enterprise Contribution will generate about $37 billion in pension funding over three decades, provide an immediate reduction in the State's long-term retiree obligations by $13.5 billion, and significantly reduce pressure on the State budget from ever-increasing pension costs. Adding this contribution to the record-high annual state pension payments made by the Christie Administration ($8.8 billion since 2010 and two-and-a-half times the combined total contributions of all New Jersey governors since 1995) will also immediately elevate the entire Retirement System's Funded Ratio from 45 percent to 59 percent.

During the course of the 30-year commitment of a steady stream of funding, the contribution is projected to elevate the Funded Ratio to 90 percent by 2047, years earlier than immediate full-funding of the actuarially determined contributions. This positively addresses Wall Street's concerns about the State's fiscal future by ensuring 30 years of substantial contributions to eligible State Retirement Systems from a source that has reliably produced revenue for 47 years. It also allows the State to achieve better portfolio performance by providing predictable liquidity. By dramatically improving the State's fiscal outlook, the transaction should lower the State's cost of borrowing from where it otherwise would be.

But don't just take my word for it. The New Jersey Department of the Treasury performed its due diligence. In order to satisfy various legal and fiduciary requirements, the State, through a competitive RFP process, hired independent, impartial, highly-qualified advisors to assess the Lottery Enterprise's fair market value and what it will add to the pension portfolio. I fully believe that the estimates they provided are not only well within reason, but conservative. If they prove to be too optimistic, there are multiple features within the statute to make the pension funds whole, while any upside performance accrues to the benefit of the pension system.

And it is worth noting, there will be no impact to State programs currently funded by the Lottery. Since the Lottery's inception, net Lottery proceeds have been dedicated to State aid for education and State institutions. While the General Fund will no longer receive the Lottery proceeds, the General Fund's current contribution to the pension system will be reduced by exactly the same amount for the first five years, leaving the same amount of resources available to fund all current programs previously paid for through net Lottery proceeds.

Finally, there will be no changes to the core operations of the New Jersey Lottery. Both players and vendors will notice no differences whatsoever.

These pension solvency actions for generations of current and future public employees and taxpayers build upon Governor Christie's bipartisan reforms of 2011 that are providing $120 billion in savings over 30 years to the pension and health benefit systems. In total, the Lottery Enterprise Contribution positively addresses the State's chief fiscal challenge and taxpayer burden, mitigating the fears of bondholders, rating agencies and public employees by significantly reducing the unfunded liability of the Retirement System.

For all of these reasons, the bipartisan Lottery Enterprise Contribution Act will not only provide pension security for decades to come, it will immediately improve New Jersey's fiscal outlook.

By Ford M. Scudder
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