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July 14, 2011

TO: Certifying Officers of the Police and Firemen's Retirement System
FROM: Florence J. Sheppard 
Acting Director, Division of Pensions and Benefits
SUBJECT: Chapter 78, P.L. 2011 — Pension Changes to the Police and Firemen's Retirement System (PFRS)

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 Police and Firemen's Retirement System (PFRS). **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.

PFRS EMPLOYEE CONTRIBUTION RATE

Under the provisions of Chapter 78, P.L. 2011, PFRS employee pension contribution rates will increase from 8.5% to **10%** of salary.

For State employees paid through the State Centralized Payroll Unit and State Colleges and Universities reporting on a biweekly payroll schedule, the increase is effective with Pay Period #21 (begins September 24, 2011 and reflected in the October 14, 2011 check date).

For all other employees, the increase is 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 increase in the PFRS 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 effective date of change.

PFRS MEMBERSHIP AND RETIREMENT

Tier 3 Membership — Chapter 78 establishes new retirement criteria for employees enrolled in the PFRS *after* June 28, 2011. The new category of membership will be referenced in the Division's publications as **Tier 3 Membership**. The enrollment criteria and maximum salary limits for PFRS Tier 3 members are *identical* to those of PFRS **Tier 2** members (established under the provisions of Chapter 1, P.L. 2010 — a chart which compares PFRS Membership Tiers is enclosed for reference).

Tier 3 membership differs from the other PFRS Membership Tiers in the calculation of Special Retirement benefits (see page 2).

Special Retirement — The benefit calculation for a **PFRS Tier 3 Special Retirement** is changed to **60%** of Final Compensation for 25 years of service **plus 1%** of Final Compensation for each year of creditable service over 25 years but not to exceed 30 years. The *maximum* Tier 3 benefit is therefore **65%** of Final Compensation.

Note: Final Compensation for PFRS Tier 3 membership is unchanged from the *average annual compensation* for **any three fiscal years** established for PFRS Tier 2 membership under Chapters 1, P.L. 2010.

TRANSFER OF PFRS MEMBERSHIP AND RETURN TO EMPLOYMENT FROM RETIREMENT

A PFRS member enrolled *on or before* June 28, 2011, who transfers employment within the PFRS, 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 PFRS account).

If there has been a break in membership, the member has withdrawn his or her account, **or** the member is a PFRS *retiree* who is returning to PFRS 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 PFRS with Tier 3 membership status.*

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 PFRS. 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

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

Enclosure

PFRS Membership Tier Enrollment and Retirement Chart

**PFRS ENROLLMENT BY MEMBERSHIP TIER
PENSIONABLE SALARY LIMITS**

<p align="center">TIER 1 (Enrolled <i>on or before</i> May 21, 2010)</p>	<p align="center">TIER 2 (Enrolled <i>after</i> May 21, 2010 and <i>on or before</i> June 28, 2011)</p>	<p align="center">TIER 3 (Enrolled <i>after</i> June 28, 2011)</p>
<p>The PFRS contribution rate for Tier 1 members enrolled <i>on or before</i> May 21, 2010, is applied to the full pensionable salary up to the “federal pensionable maximum.”*</p>	<p>The PFRS contribution rate for Tier 2 members enrolled <i>after</i> May 21, 2010, is applied to the pensionable salary up to a compensation limit based on the annual maximum wage for Social Security deductions (\$106,800 for 2010 and 2011). Tier 2 members who earn in excess of the annual compensation limit will be enrolled in the Defined Contribution Retirement Program (DCRP) in addition to the PFRS. A contribution of 5.5 percent of the salary in excess of the limit (plus three percent from the employer) is forwarded to a DCRP account.</p>	<p>The PFRS contribution rate for Tier 3 members enrolled <i>after</i> June 27, 2011, is applied to the pensionable salary up to a compensation limit based on the annual maximum wage for Social Security deductions (\$106,800 for 2010 and 2011). Tier 3 members who earn in excess of the annual compensation limit will be enrolled in the Defined Contribution Retirement Program (DCRP) in addition to the PFRS. A contribution of 5.5 percent of the salary in excess of the limit (plus three percent from the employer) is forwarded to a DCRP account.</p>

***Federal Pensionable Maximum** – Since the PFRS is a qualified pension plan under the provisions of the Internal Revenue Code, Section 401(a)(17), the current federal ceiling on pensionable compensation (\$245,00 for 2010 and 2011) applies to the base salaries of PFRS members.

PFRS RETIREMENT BENEFITS BY MEMBERSHIP TIER

	TIER 1 (Enrolled on or before May 21, 2010)	TIER 2 (Enrolled after May 21, 2010 and on or before June 28, 2011)	TIER 3 (Enrolled after June 28, 2011)
SERVICE RETIREMENT	<p>Service Retirement eligibility falls into two categories:</p> <ul style="list-style-type: none"> • A member in service and age 55 or older may retire without any required minimum years of service. • A member with at least 20 years of service may retire at any age provided the member was enrolled in the PFRS as of January 18, 2000. <p>The Tier 1 calculations for a Service Retirement are:</p> <ul style="list-style-type: none"> • Less than 20 years of service credit, the Annual Benefit equals 2 percent of Final Compensation for each year of service. • At least 20 years but less than 25 years of service credit, the Annual Benefit equals 50 percent of Final Compensation. • If age 65 (mandatory retirement age) with 20 or more years of service credit, the Annual Benefit equals 50 percent of Final Compensation, plus 3 percent of Final Compensation for each year of service over 20, up to 25 years, if enrolled in the PFRS as of January 18, 2000. • At least 30 years of service credit, the Annual Benefit equals 2 percent per year of average Final Compensation for the first 30 years of service, plus an additional 1 percent of average Final Compensation for each year of service credit over 30 years. 	<p>Service Retirement eligibility for Tier 2 members is:</p> <ul style="list-style-type: none"> • A member in service and age 55 or older may retire without any required minimum years of service. <p>The Tier 2 calculations for a Service Retirement are:</p> <ul style="list-style-type: none"> • Less than 20 years of service credit, the Annual Benefit equals 2 percent of Final Compensation for each year of service. • At least 20 years but less than 25 years of service credit, the Annual Benefit equals 50 percent of Final Compensation. • At least 30 years of service credit, the Annual Benefit equals 2 percent per year of average Final Compensation for the first 30 years of service, plus an additional 1 percent of average Final Compensation for each year of service credit over 30 years. 	<p>Service Retirement eligibility for Tier 3 members is:</p> <ul style="list-style-type: none"> • A member in service and age 55 or older may retire without any required minimum years of service. <p>The Tier 3 calculations for a Service Retirement are:</p> <ul style="list-style-type: none"> • Less than 20 years of service credit, the Annual Benefit equals 2 percent of Final Compensation for each year of service. • At least 20 years but less than 25 years of service credit, the Annual Benefit equals 50 percent of Final Compensation. • At least 30 years of service credit, the Annual Benefit equals 2 percent per year of average Final Compensation for the first 30 years of service, plus an additional 1 percent of average Final Compensation for each year of service credit over 30 years.

Tier 1 — Final Compensation means the salary upon which pension contributions were based in the **last 12 months** of creditable service preceding retirement.

Tier 2 and Tier 3 — Final Compensation means the *average* salary upon which pension contributions were based for any **three fiscal years** of membership preceding retirement that provides the largest possible benefit possible.

PFRS RETIREMENT BENEFITS BY MEMBERSHIP TIER *(Continued)*

	TIER 1 <i>(Enrolled on or before May 21, 2010)</i>	TIER 2 <i>(Enrolled after May 21, 2010 and on or before June 28, 2011)</i>	TIER 3 <i>(Enrolled after June 28, 2011)</i>
DEFERRED RETIREMENT	<p>Available to PFRS members with at least 10 years of service credit who are not yet 55 years of age when they terminate employment.</p> <p>The Deferred Retirement is effective on the first of the month after attaining age 55.</p> <p>The Annual Benefit for a Deferred Retirement equals 2 percent of Final Compensation for each year of service.</p>	<p>Available to PFRS members with at least 10 years of service credit who are not yet 55 years of age when they terminate employment.</p> <p>The Deferred Retirement is effective on the first of the month after attaining age 55.</p> <p>The Annual Benefit for a Deferred Retirement equals 2 percent of Final Compensation for each year of service.</p>	<p>Available to PFRS members with at least 10 years of service credit who are not yet 55 years of age when they terminate employment.</p> <p>The Deferred Retirement is effective on the first of the month after attaining age 55.</p> <p>The Annual Benefit for a Deferred Retirement equals 2 percent of Final Compensation for each year of service.</p>
SPECIAL RETIREMENT	<p>Available to Tier 1 members at any age, who have at least 25 years of service credit in the PFRS.</p> <p>The Tier 1 Annual Benefit for a Special Retirement equals 65 percent of Final Compensation plus 1 percent for each year of creditable service over 25 years <i>but not to exceed</i> 30 years.</p> <p>The maximum allowance is therefore 70 percent of Final Compensation.</p>	<p>Available to Tier 2 members at any age, who have at least 25 years of service credit in the PFRS.</p> <p>The Tier 2 Annual Benefit for a Special Retirement equals 65 percent of Final Compensation plus 1 percent for each year of creditable service over 25 years <i>but not to exceed</i> 30 years.</p> <p>The maximum allowance is therefore 70 percent of Final Compensation</p>	<p>Available to Tier 3 members at any age, who have at least 25 years of service credit in the PFRS.</p> <p>The Tier 3 Annual Benefit for a Special Retirement equals 60 percent of Final Compensation plus 1 percent for each year of creditable service over 25 years <i>but not to exceed</i> 30 years.</p> <p>The maximum allowance is therefore 65 percent of Final Compensation</p>

Tier 1 — Final Compensation means the salary upon which pension contributions were based in the **last 12 months** of creditable service preceding retirement.

Tier 2 and Tier 3 — Final Compensation means the *average* salary upon which pension contributions were based for any **three fiscal years** of membership preceding retirement that provides the largest possible benefit possible.

PFRS DISABILITY RETIREMENT BENEFITS BY MEMBERSHIP TIER

	TIER 1 (Enrolled <i>on or before</i> May 21, 2010)	TIER 2 (Enrolled <i>after</i> May 21, 2010 and <i>on or before</i> June 28, 2011)	TIER 3 (Enrolled <i>after</i> June 28, 2011)
ORDINARY DISABILITY RETIREMENT	Upon Board approval; the Annual Benefit is equal to 40 percent of Final Compensation or 1.5 percent of Final Compensation for each year of service credit, whichever is higher.	If approved; the Annual Benefit is equal to 40 percent of Final Compensation or 1.5 percent of Final Compensation for each year of service credit, whichever is higher.	If approved; the Annual Benefit is equal to 40 percent of Final Compensation or 1.5 percent of Final Compensation for each year of service credit, whichever is higher.
INVOLUNTARY ORDINARY DISABILITY RETIREMENT	<p>The employer has the right to apply for an Involuntary Ordinary Disability Retirement on an employee's behalf provided that all qualifications for Ordinary Disability Retirement are met.</p> <ul style="list-style-type: none"> • Upon Board approval of an application by the employer* — and with at least 4 years of PFRS service, but less than 20 years — the Ordinary Disability Retirement is 40 percent of Final Compensation, or 1.5 percent of Final Compensation for each year of PFRS service, whichever is higher. • Upon Board approval of an application by the employer* — and with 20 or more years of service — the Ordinary Disability Retirement is 50 percent of Final Compensation plus an additional 3 percent of Final Compensation for every year of PFRS service over 20 up to a maximum of 25 years. 	<p>The employer has the right to apply for an Involuntary Ordinary Disability Retirement on an employee's behalf* provided that all qualifications for Ordinary Disability Retirement are met.</p> <ul style="list-style-type: none"> • Upon Board approval of an application by the employer* — and with at least 4 years of PFRS service, but less than 20 years — the Ordinary Disability Retirement is 40 percent of Final Compensation, or 1.5 percent of Final Compensation for each year of PFRS service, whichever is higher. • Upon Board approval of an application by the employer* — and with 20 or more years of service — the Ordinary Disability Retirement is 50 percent of Final Compensation plus an additional 3 percent of Final Compensation for every year of PFRS service over 20 up to a maximum of 25 years. 	<p>The employer has the right to apply for an Involuntary Ordinary Disability Retirement on an employee's behalf* provided that all qualifications for Ordinary Disability Retirement are met.</p> <ul style="list-style-type: none"> • Upon Board approval of an application by the employer* — and with at least 4 years of PFRS service, but less than 20 years — the Ordinary Disability Retirement is 40 percent of Final Compensation, or 1.5 percent of Final Compensation for each year of PFRS service, whichever is higher. • Upon Board approval of an application by the employer* — and with 20 or more years of service — the Ordinary Disability Retirement is 50 percent of Final Compensation plus an additional 3 percent of Final Compensation for every year of PFRS service over 20 up to a maximum of 25 years.

*The employer must file a Resolution and/or an Official Letter with **all** involuntary disability applications. See the *PFRS Member Handbook* for details.

Tier 1 — Final Compensation means the salary upon which pension contributions were based in the **last 12 months** of creditable service preceding retirement.

Tier 2 and Tier 3 — Final Compensation means the *average* salary upon which pension contributions were based for any **three fiscal years** of membership preceding retirement that provides the largest possible benefit possible.

PFRS DISABILITY RETIREMENT BENEFITS BY MEMBERSHIP TIER *(Continued)*

	TIER 1 <i>(Enrolled on or before May 21, 2010)</i>	TIER 2 <i>(Enrolled after May 21, 2010 and on or before June 28, 2011)</i>	TIER 3 <i>(Enrolled after June 28, 2011)</i>
SPECIAL DISABILITY RETIREMENT	<p>To qualify for a Special Disability Retirement the member must:</p> <ul style="list-style-type: none"> • Be a PFRS member in service at the time the application is filed with the Division of Pensions and Benefits (an official leave of absence is considered in service); and • Have five or more years of New Jersey service credit; and • Receive a heart transplant. <p>The annual benefit calculation for a Special Disability Retirement is equal to 50 percent of Final Compensation.</p>	<p>To qualify for a Special Disability Retirement the member must:</p> <ul style="list-style-type: none"> • Be a PFRS member in service at the time the application is filed with the Division of Pensions and Benefits (an official leave of absence is considered in service); and • Have five or more years of New Jersey service credit; and • Receive a heart transplant. <p>The annual benefit calculation for a Special Disability Retirement is equal to 50 percent of Final Compensation.</p>	<p>To qualify for a Special Disability Retirement the member must:</p> <ul style="list-style-type: none"> • Be a PFRS member in service at the time the application is filed with the Division of Pensions and Benefits (an official leave of absence is considered in service); and • Have five or more years of New Jersey service credit; and • Receive a heart transplant. <p>The annual benefit calculation for a Special Disability Retirement is equal to 50 percent of Final Compensation.</p>
ACCIDENTAL DISABILITY RETIREMENT	<p>If approved, the annual benefit is equal to 2/3 of annual compensation on which pension contributions were being made at the time of retirement or the date of the “traumatic event”, whichever provides the higher benefit.</p>	<p>If approved, the annual benefit is equal to 2/3 of annual compensation on which pension contributions were being made at the time of retirement or the date of the “traumatic event”, whichever provides the higher benefit.</p>	<p>If approved, the annual benefit is equal to 2/3 of annual compensation on which pension contributions were being made at the time of retirement or the date of the “traumatic event”, whichever provides the higher benefit.</p>

Tier 1 — Final Compensation means the salary upon which pension contributions were based in the **last 12 months** of creditable service preceding retirement.

Tier 2 and Tier 3 — Final Compensation means the *average* salary upon which pension contributions were based for any **three fiscal years** of membership preceding retirement that provides the largest possible benefit possible.