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Christie's overhaul may not save N.J. pension system

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By **Jarrett Renshaw/Statehouse Bureau**

TRENTON — For months, Gov. Chris Christie has told audiences that his historic pension overhaul helped save taxpayers millions and turned around a system in financial free-fall.

Jerry McCrea/The Star-Ledger

Chris Christie in this September, 2011 Star-Ledger file photo. Despite Christie's assessment that his pension overhaul would save taxpayers millions, estimates show the pension system will again lose ground because the state isn't chipping in its full share.

But a far more sober assessment of the future of the pension system is emerging in bond documents and administration estimates released last week, signaling that New Jersey taxpayers have not escaped the ballooning pension costs that the reform measures promised to control.

While an overhaul that suspends retirees' cost-of-living increases and requires public workers to pay more for pensions brought an immediate financial boost, the pension system will again lose ground because the state still isn't chipping in enough money — and won't until at least 2018 — the administration recently told Wall Street.

The result: By 2018, state taxpayers will begin paying more than $5 billion a year for pensions, roughly 10 times higher than the partial payment being made in this year's budget. The tab for local taxpayers will rise by about $600 million by 2020, estimates show.

Experts say taxpayers could be hit with much higher pension bills if the state doesn't pay what it promises — or if it doesn't make as much as the 8.25 percent it expects to earn each year on investments.

"I call it generational theft," said Richard Dreyfuss, a pension expert at the Commonwealth Foundation, a conservative think tank in Pennsylvania. "Any relief that you are getting now by not making payments goes on the backs of the next generation. That's a huge transfer of costs, and immoral."

Christie's office said that it never hid the fact that the pension funds will worsen in the short term and that without major changes to a problem decades in the making, things would be far worse — and taxpayers would pay even more.

"You can't fairly look at this in such a narrow window when we're dealing with long-term reforms that are fixing a broken pension system and providing huge savings to the state and municipalities all along the way," said Michael Drewniak, Christie's spokesman.

The administration says its changes significantly restrained costs and immediately made the pension funds stronger. Drewniak said the governor's reforms will save state and local taxpayers $121 billion over 30 years.

The "unfunded liability" — the difference between how much the pension system has and what has been promised to current and future retirees — dropped from $53.9 billion to $35.4 billion after the law was signed, the state said in bond documents.

But because the state won't be making full pension payments, the gap will swell again to $58 billion by 2019, according to the state's estimates.

"While admirable, this was paper reform," said Fred Beaver, former state pension director. "The state is going to need a big shovel to get out of the hole they are digging themselves by not making the payments."

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This year, the state should be paying roughly $3.3 billion into the pension fund, but will kick in about $468 million. As part of a measure that passed in 2010, the state will increase its payments by one-seventh each year over the next seven years.

Dreyfuss equates this to a homeowner taking out a mortgage and making only partial payments for seven years. After those seven years, the missed payments are added and the homeowner is saddled with a much bigger mortgage and higher monthly payments.

The new law requires public workers, from police officers and firefighters to state workers, to pay more toward their pensions. The increases are being phased in starting this year, and Christie said they brought immediate savings of $267 million at the local level. He was in Paramus and Mount Laurel last week touting the savings and urging local officials to use the money for property-tax relief.

Unlike the state, local governments rarely skipped pension payments, which made the police and firefighters fund one of the most solvent in the state. But that didn't safeguard police and firefighters from having to pay more under the new law.

John Sierchio, chairman of the police and firefighters pension board, said he hopes history doesn't repeat itself when the state gets hit with much bigger payments down the road.

"We made the payments, so if the state wants to skip theirs, that's their prerogative, but leave us alone," said Sierchio at Wednesday's pension board hearing in Trenton. Police pay 10 percent of their salaries for their pensions, which Sierchio says is the highest rate in the nation.

"The state should clean up its own house before coming after us," said Sierchio. "They give political hacks part-time jobs to get in the pension system and then before they retire they get a six-figure job and big pension."

The state's decision to delay making full payments caught the attention of rating agencies that recently downgraded the state's bond rating. Fitch Ratings acknowledged the success of the pension overhaul, but noted that only making partial payments until 2018 will force "sizable" increases in taxpayer contributions "likely to conflict with other long-term challenges, such as property-tax relief, school funding, and infrastructure needs."

In February, at one of his town-hall meetings, Christie was confronted by a police officer who said the state has repeatedly "stolen" from pension funds to balance the budget. "I would love to send a bill to Whitman, McGreevey, Codey and Corzine," Christie said of the ex-governors who failed to make full pension payments. "I would love to replace the money and put it in there. But where am I going to get it from?"