

**New Jersey Pension and
Health Benefit Study
Commission**

**New Jersey Education
Association**

Joint Memo

To: The Honorable Christopher J. Christie, Governor
The Honorable Stephen M. Sweeney, Senate President
The Honorable Vincent Prieto, Assembly Speaker

Date: February 17, 2015

Representatives of the New Jersey Pension and Health Benefit Study Commission and the New Jersey Education Association have had numerous meetings over the last five months to endeavor to arrive at a "roadmap" as to the direction of how the pension and health benefits conundrum can be resolved for all public school employees and retirees. The attached "roadmap" sets forth the significant recommendations for how future discussions can take place to arrive at a resolution.



Thomas Healey, Chairman
New Jersey Pension and
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Wendell Steinbauer, President
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Raymond Chambers
New Jersey Pension and
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ROADMAP TO ESTABLISH DIRECTION FOR SOLVING NJ PENSION AND HEALTH BENEFITS ISSUES

PENSION

The existing plan would be frozen and it would be replaced by a new plan. It is anticipated that the annual contributions to the new plan on behalf of active school employees will be paid for by the local school districts employing them. It is the intention that the beneficiaries of the existing plan will receive what they are entitled to according to the terms of that plan.

Both the existing plan and the new plan would be transferred to a Trust created by NJEA. The State would be obligated to make periodic contributions within each fiscal year to the Trust to retire the unfunded liability of the existing plan over an extended period of time like 40 years. The State's payment obligations would be ensured pursuant to a Constitutional Amendment that is intended to be the subject of a Public Referendum to be voted upon in November 2015, pursuant to a specified payment schedule (with the State having the right to pre-pay all or part of its obligation) until the liability were fully retired. The payment amounts and percentages of annual increase are subject to further discussion with the goal of reaching an accord.

HEALTH CARE

As we've discussed over the last several months, the Commission believes the State can only afford to set aside approximately 15 percent of its budget annually to pay for the pension liability, its share of the new pension plan and for health benefits. Somehow, the State needs to utilize savings from health care to offset a portion of the payments necessary for the permanent pension solution. It is the intention that the Plan Design Committee of the School Employees' Health Benefits Program consider elements intended to reduce costs, to a level that is comparable to the cost of private-sector employee benefits, while preserving quality of care. The health care savings can come from, but would not be limited to, the following categories:

- A) over a period of time for adequate transition, moving the health care costs of retired school employees to the school districts that employed them;
- B) wellness programs;
- C) establishment of patient-centered "medical homes" and accountable care organizations;
- D) setting co-pays, deductibles and co-insurance provisions to encourage utilization of in-network providers;
- E) creating incentives to maximize the use of generic medications and mail-order pharmacy;
- F) setting co-pays, deductibles and co-insurance provisions, and considering other initiatives, such as on-site clinics or access to urgent-care centers, to minimize utilization of emergency room visits;
- G) defining of plan terms and plan costs to encourage utilization of lower cost plans;

- H) utilization of episodes of care programs, referenced based pricing programs and value based benefit designs;
- I) identification of other initiatives permitting beneficiaries to receive care of equal or higher quality at lower cost.

We have determined, based on the likelihood of when the State Legislature will be in session, that the necessary documentation must be prepared by June 1, 2015 in order to comply with the requirements to have the Constitutional Amendment become a Referendum item on Election Day, November 3, 2015. If for some reason, it has not been concluded by June 1, 2015 that sufficient savings will be forthcoming for the State, from health care costs, in order for the State to adequately fund its ongoing pension obligations, then the request for the Referendum will have been withdrawn, and another plan or strategy will have to be considered. Likewise, if the shifting of costs to local school districts for the new pension plan and for retiree health insurance is determined to not be financially feasible, the Referendum proposal will be withdrawn.

The participants in these discussions have acknowledged they do not have the power to speak on behalf of their members and that neither side has the power to speak for the State or any of the local government entities that may be affected by this proposal. However, the NJEA, together with the members of the Commission, believe that pursuing the path outlined by this "roadmap" may well lead to an equitable resolution of this challenging impasse for all public school employees in the State of New Jersey.