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December 5, 2008

**TO:** Certifying Officers, Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), and Defined Contribution Retirement Program (DCRP)

**FROM:** Florence J. Sheppard   
Deputy Director, Benefit Operations

**SUBJECT: Chapter 89, P.L. 2008, Public Employee Benefits Reform Act of 2008**

Governor Corzine recently signed into law Chapter 89, P.L. 2008, the Public Employee Benefits Reform Act of 2008. This law, effective November 2008, implements several recommendations made by the Joint Legislative Committee on Public Employee Benefits Reform, and impacts the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Defined Contribution Retirement Program (DCRP), and Alternate Benefit Program (ABP). The following information details important changes to these retirement systems brought about by this new legislation.

As a result of the passage of reform legislation in 2007 and 2008, there are some differences in PERS and TPAF enrollment and retirement criteria for individuals enrolled after certain dates. For ease of communication, in this and future communications we will refer to these differences as “**membership tiers.**”

## ENROLLMENT

Enrollment periods for the membership tiers of the PERS and TPAF are as follows:

- **Membership Tier 1:** Members who enrolled prior to July 1, 2007.
- **Membership Tier 2:** Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008 — pursuant to the provisions of Chapter 103, P.L. 2007.
- **Membership Tier 3:** Members who were eligible to enroll on or after November 2, 2008 — pursuant to the provisions of Chapter 89, P.L. 2008.

### **Changes in Salary Requirements for Enrollment in Membership Tier 3**

Chapter 89 established a new minimum base salary requirement for Tier 3 eligibility in the PERS or TPAF. Salary requirements for the different tiers of the PERS and TPAF are as follows:

- **Membership Tier 1:** The minimum base salary requirement for enrollment remains \$1,500 per year for the PERS and \$500 for the TPAF.<sup>1</sup>
- **Membership Tier 2:** The minimum base salary requirement for enrollment remains \$1,500 per year for the PERS and \$500 for the TPAF.<sup>1</sup> However, Chapter 103, P.L. 2007, established a maximum wage limit for PERS or TPAF pension contributions, which is subject to adjustment annually. Currently, the maximum wage limit for 2008 is \$102,000 and will adjust to \$106,800 for 2009. Tier 2 members who earn in excess of the annual maximum wage will be enrolled in the DCRP — in addition to the PERS or TPAF. See Fact Sheet #79, *Defined Contribution Retirement Program for PERS and TPAF Members*, for more information.
- **Membership Tier 3: The minimum base salary requirement for enrollment in the PERS or TPAF is increased to \$7,500.** The minimum base salary amount is subject to adjustment annually in accordance with changes in the Consumer Price Index (with any adjustment limited to a maximum of four percent per year). Tier 3 members must continue to meet the minimum annual salary threshold each year in order to continue participation in the PERS or TPAF.<sup>2</sup> If an employee's salary does not meet the annual minimum requirement for Tier 3 enrollment, the employee will be eligible for enrollment in the DCRP provided the annual salary is \$1,500 or more.

The maximum wage limit for PERS or TPAF pension contributions established for Membership Tier 2 remains for Membership Tier 3. Therefore, Tier 3 members who earn in excess of the annual maximum wage (\$102,000 for 2008 or \$106,800 for 2009) will be enrolled in the DCRP — in addition to the PERS or TPAF. See Fact Sheet #79, *Defined Contribution Retirement Program for PERS and TPAF Members*, for more information.

A chart showing the PERS and TPAF salary required for enrollment under each membership tier is included with this letter.

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<sup>1</sup> For a member who is paid on a part-time hourly, on-call or per diem basis and who does not have an annual contractual base salary, pension and contributory insurance deductions shall be calculated using actual creditable salary earned. If a member's actual creditable salary should drop below one-twelfth (for 12-month employees; one-tenth for 10-month employees) of the minimum threshold salary required for enrollment into the retirement system, pension contributions shall not be deducted from that member's creditable salary, and pension credit shall not be earned, for that month. For PERS Membership Tier 1 or Tier 2 individuals the monthly minimum to receive service and salary credit is \$125 or \$150 for 12-month and 10-month members respectively.

<sup>2</sup> For Membership Tier 3 individuals the monthly minimum salary to receive service and salary credit during the remainder of calendar year 2008 and all of 2009 is \$625 or \$750 for 12-month and 10-month members respectively. This amount may be adjusted in subsequent calendar years.

### **Multiple Membership**

When a member is employed in positions at two or more PERS employers, or two or more TPAF employers, the member is considered a “multiple member.” Employment in positions with the additional employers will count toward the multiple member’s PERS or TPAF account, **provided that the salary from each additional employer meets the minimum salary required for enrollment.** Salaries from two or more employers cannot be combined to meet the minimum salary required for PERS or TPAF eligibility.

- **Tier 1 and Tier 2:** Multiple members retain their original tier status for any PERS or TPAF eligible position with an additional employer, and must meet the minimum base salary of \$1,500 per year from each PERS eligible position; or \$500 per year from each TPAF eligible position.
- **Tier 3:** Multiple members must meet the minimum base salary of \$7,500 (subject to adjustment annually) from each PERS or TPAF eligible position.

If a Tier 3 multiple member’s salary from a position with an additional employer does not meet the annual minimum requirement, the member is eligible for enrollment in the DCRP for the salary from that employer, provided the salary is \$1,500 or more per year. Therefore, it is possible for a Tier 3 member to be enrolled in the PERS or TPAF for some employment while enrolled in the DCRP for other employment.

### **TRANSFERS AND REEMPLOYMENT**

Employees enrolled in any New Jersey State-administered retirement system (PERS, TPAF, PFRS, SPRS, or JRS), who transfer employment to the PERS or TPAF (or transfer within the PERS or TPAF) are eligible for membership based on the employee’s original date of enrollment **provided that there is no break in service** or that **any break in service is 24 months or less.**<sup>3</sup> If this is the case, PERS or TPAF members will maintain eligibility under their original membership tier, while PFRS, SPRS, or JRS members will be enrolled under the PERS or TPAF membership tier that corresponds to the original date of enrollment in the prior retirement system.

Since retirement system membership generally expires after 24 months of inactivity (or with retirement or withdrawal, see below), any individual who obtains public employment **following a break in service of more than 24 months** will be enrolled under the PERS or TPAF membership tier in effect at the time of reemployment. The 24-month limitation on return to a membership tier applies regardless of any prior retirement system membership, even if the individual is vested in a former PERS or TPAF account.

**If an individual has withdrawn their account — or is a PERS or TPAF retiree** reemployed in a position under the same retirement system from which they retired — the individual will be enrolled under the PERS or TPAF membership tier in effect at the time of reemployment, regardless of the length of the break in service. All other conditions of PERS or TPAF enrollment when returning from retirement will apply — including suspension of the member’s retirement allowance.

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<sup>3</sup> In accordance with either N.J.S.A. 43:15A-7(e) or N.J.S.A. 18A:66-7(a).

### **Defined Contribution Retirement Program (DCRP) Enrollment**

An employee who otherwise qualifies for PERS or TPAF Tier 3 membership, but does not meet the \$7,500 minimum salary requirement, is eligible for enrollment in the DCRP provided that the base salary is at least \$1,500 annually.

- An employee whose salary is between \$1,500 and \$5,000 can voluntarily decline enrollment in the DCRP by signing an irrevocable waiver. When a DCRP eligible employee waives enrollment, it applies only to the specific position held at that time. The employee can choose to participate in the DCRP if he or she assumes another DCRP covered position at a later date with either the same or a different employer. The option to waive DCRP enrollment is not available to employees if the salary is more than \$5,000.

### **Adjunct Faculty ABP Enrollment Eligibility**

An adjunct faculty member or part-time instructor at a public institution of higher education in the State whose employment begins after November 1, 2008, will be eligible for membership in the Alternate Benefit Program (ABP), instead of the PERS.

Adjunct faculty members and part-time instructors currently enrolled in the PERS who enter into a new employment agreement after November 1, 2008, must choose to either waive their benefits under the ABP and continue their participation in the PERS, **or** waive their benefits under the PERS and transfer their accumulated pension service, contributions, and any available employer contributions under PERS to the ABP.

An individual accepting an adjunct faculty or part-time instructor position who currently holds employment with another public employer which requires membership in either the TPAF or PERS may leave that existing TPAF or PERS membership intact and enroll into a separate ABP account as a result of the new adjunct faculty or part-time instructor position. This portion of Chapter 89 is further explained in the Certifying Officer letter dated October 28, 2008 (*Pension Eligibility, Adjunct Faculty, and Part-time Instructors*).

## **PURCHASE OF SERVICE CREDIT**

### **Out-of-State and U.S. Government Purchase of Service Credit**

**For all membership tiers in the PERS and TPAF**, pension service credit for Out-of-State or U.S. Government civilian service (or for service with a bi-state or multi-state agency in the case of a member of PERS) that is requested for purchase on or after November 1, 2008, will no longer be used to qualify for **any State-paid or employer-paid health benefits** in retirement.

The purchase of Out-of-State or U.S. Government civilian service will continue to apply for retirement purposes.

## RETIREMENT

### Changes in Retirement Age for Membership Tier 3

Chapter 89 raised the Service, Deferred, and Early Retirement age requirements for members of Tier 3. Service, Deferred, and Early Retirement age provisions for the different membership tiers of the PERS and TPAF are as follows:

- **Tier 1 Membership:** The retirement age is 60 for a Service or Deferred Retirement. For an Early Retirement, a member must have at least 25 years of service credit; however, if a member is **under the age of 55** at the time of retirement, the retirement allowance is reduced 3 percent per year (1/4 of 1 percent per month) for each year the member is under age 55.
- **Tier 2 Membership:** The retirement age is 60 for a Service or Deferred Retirement. For an Early Retirement a member must have at least 25 years of service credit; however, if a member is **under the age of 60** at the time of retirement, the retirement allowance is reduced 1 percent per year (1/12 of 1 percent per month) for each year the member is under age 60 but over age 55, **and** 3 percent per year (1/4 of 1 percent per month) for each year the member is under age 55.
- **Tier 3 Membership:** The retirement age is **62** for a Service or Deferred Retirement. For an Early Retirement a member must have at least 25 years of service credit; however, if a member is **under the age of 62** at the time of retirement, the retirement allowance is reduced 1 percent per year (1/12 of 1 percent per month) for each year the member is under age **62** but over age 55, **and** 3 percent per year (1/4 of 1 percent per month) for each year the member is under age 55.

Retirement provisions for Veteran Retirement, Ordinary Disability, or Accidental Disability Retirement remain unchanged for all PERS and TPAF members (see enclosed retirement benefits chart).

## ADDITIONAL INFORMATION

As employers apply the provisions of the laws discussed in this letter, there may be situations where the correct action to take with an employee's enrollment, transfer, or retirement is unclear. To assist employers and members, the Division of Pensions and Benefits is in the process of revising the administrative procedures provided in the Employers' Pensions and Benefits Administration Manual (EPBAM) and is planning a set of Frequently Asked Questions and Answers for its Web site at: [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions)

Employers may also contact the Division regarding the information provided in this letter, or for further assistance with the provisions of the laws discussed. Contact the Division's Office of Client Services at (609) 292-7524, or e-mail the Division at: [pensions.nj@treas.state.nj.us](mailto:pensions.nj@treas.state.nj.us)

## PERS AND TPAF SALARY REQUIREMENTS FOR ENROLLMENT BY MEMBERSHIP TIER

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

	<b>TIER 1</b> (Enrolled prior to July 1, 2007)	<b>TIER 2</b> (Eligible for enrollment on or after July 1, 2007 and prior to November 2, 2008)	<b>TIER 3</b> (Eligible for enrollment on or after November 2, 2008)
<b>PERS</b>	<p>Minimum base salary of \$1,500 required for PERS enrollment.</p> <p>IRS Annual Compensation Limit on maximum salary generally apply (\$230,000 for 2008; \$245,000 for 2009).</p>	<p>Minimum base salary of \$1,500 required for PERS enrollment.</p> <p>PERS salary limited to Social Security maximum wage (\$102,000 for 2008; \$106,800 for 2009). 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 or TPAF enrollment. (\$7,500 for 2008 and 2009; subject to adjustment in future years.)</p> <p>Employees with base salary between \$1,500 and current PERS/TPAF minimum of \$7,500 are eligible for participation in the Defined Contribution Retirement Program (DCRP).</p> <p>PERS and TPAF salary limited to Social Security maximum wage (\$102,000 for 2008; \$106,800 for 2009).</p> <p>PERS and TPAF 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 enrollment.</p> <p>IRS Annual Compensation Limit on maximum salary generally apply (\$230,000 for 2008; \$245,000 for 2009).</p>	<p>Minimum base salary of \$500 required for TPAF enrollment.</p> <p>TPAF salary limited to Social Security maximum wage (\$102,000 for 2008; \$106,800 for 2009). TPAF members are eligible for participation in the Defined Contribution Retirement Program (DCRP) for salary over the maximum wage limit.</p>	

## PERS AND TPAF RETIREMENT BENEFITS BY MEMBERSHIP TIER

	<b>TIER 1</b> (Enrolled prior to July 1, 2007)	<b>TIER 2</b> (Eligible for enrollment on or after July 1, 2007 and prior to November 2, 2008)	<b>TIER 3</b> (Eligible for enrollment on or after November 2, 2008)
<b>SERVICE RETIREMENT</b>	Minimum age of <b>60</b> , no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average Salary.	Minimum age of <b>60</b> , no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average Salary.	Minimum age of <b>62</b> , no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average 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 Salary.	Collectable at age <b>60</b> , at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average Salary.	Collectable at age <b>62</b> , at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average Salary.
<b>EARLY RETIREMENT</b>	At least 25 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average 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 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 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.
<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.
<b>ORDINARY DISABILITY RETIREMENT</b>	If approved: Annual benefit = 43.6 percent X Final Average Salary.	If approved: Annual benefit = 43.6 percent X Final Average Salary.	If approved: Annual benefit = 43.6 percent X Final Average Salary.
<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.