

Precis paper

[Linguistics](#), [English](#)



Pension Overhauls in New Jersey Pension Overhauls in New Jersey In the Governor of New Jersey Mr. Chris Christie overhauled the entire pension system and came up with a new one. This new system includes an eight year schedule of steadily rising payment by workers and taxpayers to the system in order to fund it. It was agreed that the payment will rise steadily from zero in year one to \$1. 7 billion in this year which will be the highest payment ever made by the state to the pension scheme. The problem however was that the money was required immediately. Three years since the effecting of the new pension scheme, the Governor raises concerns of whether the government will beat the time scheduled to pay the \$1. 7 billion which will be just a third of what the government is supposed to pay by 2018.

In his state of the state speech last month, the governor said that education and other needs will be shortchanged by the rising payments. He is expected to continue with the speech on Tuesday during the annual budget address. Over 40 states have overhauled their pension systems but experts say that this is just deferment of costs of pension to the future.

Pension overhauls have failed because the cost of benefits and money set aside for payment has grown from \$3. 1million in 2009 to \$4 trillion this year according to Joshua D. Rauh, a finance professor at Stanford University. The gap keeps widening from year to year and many states are in dept of amount equal to or more than their annual revenue. Pension overhauls experts' advice that the most effective solution is to raise taxes substantially or do away with future retirement benefits of public workers. This is illegal in the government but is practiced in companies in some states.

There are many reasons why pension overhauls have failed. One is state

contributions are deferred to pension funds and end up in depth in the long term. Pension investments earning estimates are also overly optimistic.

Another reason is politics. Governors and legislatures are unwilling to spend on financing their failing pension systems. New Jersey for example diverted the pension systems money to other programs promising better benefits in 1992. By 2010, the whole system was unfunded and the state accused of securities fraud by federal regulators.

The system was redeemed in 2011 with several changes. Retirement age for new workers rose to 65 years with 30 years of service from 55 years with 25 years of service. There was also compulsory increase in contribution from current workers and suspension of cost of living increase for retired workers.

This led to rise of the pension health indicator from 56.4 to 65.2 and according to Governor Christie; savings of up to \$122 billion are expected.

The state of New Jersey came up with a new policy. There is a 38 year old plan where the state doesn't pay for the first year followed by a break of 7 years then the state pays all the arrears by 2048. The state however warns against a drop in the funded ratio to 52.3 due to the ramp. This means that the missing money must be replaced with interest before the given period. In 2012, California cut the benefits for new workers from January 2013 but Governor Jerry Brown warns that the gap might rise to \$9 million and therefore trustees should start filling the gap immediately instead of the two year wait as they had requested.