

On June 28, 2007, Governor Corzine signed A-5005/S-3004 into law. The new law, [P.L. 2007, c. 103](#), contains changes in the pensions and health benefits of State and school employees. The law is effective immediately, except where noted below. The following is a summary of the law's provisions and the potential impact on school districts and their employees.

**Please be advised that in an attempt to provide the most up-to-date information possible, NJSBA has created this document for *informational* purposes only. Regulations for A-5005, when published, may change the information contained in this document. Please consult with your labor relations resources, your board attorney and the NJSBA's Labor Relations Department for the most recent information.**

### **Changes to the pension systems include:**

- The law increased the employee contribution for the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), and the Defined Contribution Retirement Plan (DCRP) from 5% to 5.5% of an employee's salary. The DCRP was created by [P.L. 2007, c. 92](#), the Public Benefits Reform Act. Newly elected and appointed public officials, who begin service on or after June 9, 2007, will participate in the DCRP. For additional information on the DCRP, go to the [NJSBA's Labor Relations Department's](#) web site and select "FAQ on the Public Benefits Reform Act (S-17)."
  - This increased pension contribution does not require locals to take or change any action because this change does not alter the relationship between the employer and employee, but between the employee and their State pension. However, personnel administrators will want to be aware of changes to the pension systems because they may receive questions from current and new employees on this issue.
  - In the context of negotiations, boards can anticipate that their unions may raise the contribution increase at the bargaining table to justify their salary demands.
- Penalties for early retirement for new members of TPAF and PERS (employees who enter either system on or after 7/1/07) have been changed. Current employees with 25 years of service are still able to retire at age 55 without penalty. However, new members who go on to provide 25 years of service must reach the age of 60 before they can retire without penalty.
  - Again, this changes the relationship between employees and their State pension system, not their relationship to their local employer. However, this change will impact long-range district planning. For example, new employees as of 7/1/07 will probably retire at a later age than current staff

to avoid retirement penalties. This will affect district planning when estimating retirements and the need for new hires.

- Additionally, a district should consider how later retirements would affect its responsibilities to provide negotiated terms and conditions of employment, such as payment for unused sick leave (PUSL).
- Employees who become members of PERS or TPAF *on or after 7/1/07* may only participate in their respective system until their compensation reaches the annual maximum wage contribution for Social Security, currently \$97,500. After an employee's salary reaches the Social Security max, he or she will be placed in the DCRP, but retains membership in TPAF or PERS. The amount of the employee's salary above the Social Security maximum is eligible for the DCRP. The employee has the ability to waive participation in the DCRP. Any service credit obtained in TPAF or PERS will be used to qualify the employee for disability and life insurance benefits provided through the DCRP, which are equal to the other pension systems. These provisions of the law are effective 7/1/07.

### **Changes to the State Health Benefits Plan (SHBP) include:**

**The following changes to the SHBP are effective immediately and will alter the State plan for participating districts in the 2007-2008 school year. However, a new School Employees' Health Benefits Plan becomes effective on July 1, 2008 and will become the only State-administered plan available to school districts. The specifics of the SEHBP are in a separate section below.**

- The law alters the make-up of the State Health Benefits Commission (SHBC), which governs the SHBP, and creates a new State insurance plan for school employees. The effective date of the School Employees' Health Benefits Plan (SEHBP) is July 1, 2008.
- The law gradually eliminates the traditional and NJ Plus plans in SHBP and creates a new "successor plan," a managed care plan that is substantially similar to the current traditional plan. The bill states that the successor plan will provide benefits equal to the traditional plan. SHBP will continue to offer a variety of managed care insurance plan options in addition to the "successor plan," including a State managed care plan that is substantially similar to the current NJ Plus plan. The timeline for the elimination of the traditional and NJ Plus plans and transition to their respective replacement plans is not yet available. As the specifics are developed, NJSBA will provide updates.
- The law specifically preserves any negotiated cost sharing options recently provided through legislative changes. Additionally, any negotiated premium sharing

arrangements for the traditional and NJ Plus plans will be applicable to their replacement plans.

- Until April 3, 2007, when Governor Corzine signed A-1 into law, boards were legally precluded from seeking a number of insurance cost containments through the negotiations process, if they participated in the SHBP. [P.L. 2007, c. 62](#). (A-1) provided boards the ability to negotiate employee contributions to individual coverage and tiered benefits, different levels of benefits for different classifications of employees. On May 9, 2007, the Governor signed [P.L. 2007, c. 92](#) (S-17), which permits boards participating in the SHBP to unilaterally implement a waiver incentive. A-5005 does not undermine any of the cost containment options provided in [P.L. 2007, c. 62](#). or [P.L. 2007, c. 92](#) . For additional information on insurance cost containment, please go to the [NJSBA's Labor Relations Department](#) web site and select "New SHBP Reform Measures."
- In addition to the cost sharing options provided in [P.L. 2007, c. 62](#) and [P.L. 2007, c. 92](#), employers are now permitted to negotiate limitations with employees participating in the "successor plan" (a State managed care plan that In the past, SHBP-participating employers were unable to negotiate restrictions to accessing certain insurance plans.
- State employees and retirees who do not have a majority representative must contribute 1.5% of their salaries or pension payments toward health insurance coverage. The contribution for State employees and retirees covered by a collective bargaining agreement is negotiable. All retirees can elect to participate in the New Jersey Retirees' Wellness Plan instead of contributing toward health insurance coverage.
  - The contribution *is not* applicable to local districts.

### **Creation of the School Employees' Health Benefits Plan (SEHBP):**

- All components of the SHBP will carry over to the new SEHBP unless expressly excluded in the law. Nothing in the law rescinds any cost containment measures recently obtained in legislative changes. For more information on the recent legislative changes, go the [NJSBA's Labor Relations Department](#) web site and select "New SHBP Reform Measures."
- On 7/1/08, a new State plan available *only* to school employees becomes effective. Once the new plan becomes effective, boards will no longer be able to enter the SHBP as it currently exists. For boards of education, coverage through a State-administered plan will only be available through the SEHBP. This does not limit

boards' ability to insure through a private carrier and does not limit boards' ability to enter or leave the SEHBP at any time.

- Employee eligibility criterion under the SEHBP is the same as under the current SHBP. However, the term employee does not include short-term, seasonal, intermittent, or emergency employees. The hours of work required to qualify (threshold) for coverage remains negotiable.
- Employers who can participate in the SEHBP include charter schools, local school districts, regional school districts, county colleges, etc..., but exclude the State public institutions of higher education and other public entities where the employer is the State.
- The SEHBP does not have a traditional plan as it currently exists. Instead, the "successor plan" will replace it. The terms of the successor plan are delineated in the law, including deductibles and coverage levels, which have always been set by the State. The State is currently conducting an RFP (Request for Proposal) to obtain an insurance provider for the "successor plan." For additional information on the RFP, please go to the [State Health Benefits Program](#) web site.
- Premium sharing is negotiable. Recent legislative changes (mentioned above) provided the ability to negotiate premium cost sharing. These legislative changes will also apply to the SEHBP.
- The provisions of the law concerning the SEHBP are effective immediately, although the plan will not be operational until July 1, 2008. This permits the immediate creation of the School Employees' Health Benefits Commission, the body responsible for governing the SEHBP. The Commission will consist of 9 members: the State Treasurer, the Commissioner of the Department of Banking and Insurance, a Public Member appointed by the Governor, an NJSBA member, 3 members from the NJEA, 1 member from the AFL-CIO, and a chairperson that 6 of the 8 above must agree upon. NJSBA is the only management advocate with a seat on the Commission.
- The State pays for school district employees' retiree health benefits and will continue to take on this cost, according to the law.

### **Creation of the School Employee Drug Prescription Plan:**

- The new prescription plan is for boards that enroll in the SEHBP and elect prescription coverage through the State.

- Any cost sharing relationship in force at the time the employer commences participation in the SEHBP will continue, preserving the status quo for negotiations and contract administration regarding prescription drug coverage.
- If an employer elects to have a private carrier provide its prescription plan, it has access to the full range of cost containment options.
- If no prescription drug plan is offered, the employer is obligated to provide prescription coverage through the basic health care coverage in the SEHBP or as determined by the Commission.

For additional information on the legislative changes to the State plan and/or pensions, go to the [Division of Pensions and Benefits](#) web site and the [NJSBA's Labor Relations Department](#) web site.