Moody’s Investors Service Reports Additional Benefits Reform Would Be Credit Positive for New Jersey

TRENTON – A report published by Moody’s Investors Service Wednesday noted that implementation of additional pension and health benefits reform in New Jersey would be a credit positive.

The non-partisan New Jersey Pension and Health Benefit Study Commission appointed by Governor Christie released a report in February 2015 outlining policy recommendations to address the challenges facing New Jersey’s public employee pension and health benefits system. These recommendations include freezing existing pension plans, more closely aligning public employee pensions and health benefits with private-sector levels and putting in place an affordable, sustainable payment schedule protecting pension benefits earned through service to date and retiring the unfunded pension liabilities currently strangling the State’s finances.

“If the commission's reforms are implemented as proposed, the state would have the budgetary flexibility to make larger pension contributions and resolve a significant portion of New Jersey’s long-standing structural imbalance,” Moody’s said in its report. The report also noted the Commission’s estimate that its reforms as a whole would significantly reduce public employee benefits’ share of the budget and that “eliminating the state’s obligation to fund the accrual of future benefits under the existing plan terms could lower the state’s unfunded liability approximately 11%.”

Thomas Healey, who has coordinated the Commission’s work, commented that “we are encouraged that Moody’s has paid such close attention to the Commission’s work and has recognized that comprehensive reform offers the only realistic solution to the State’s fiscal problems.”

Following the release of the Study Commission’s report, the Governor endorsed the Commission’s proposal and called for it to be used as a basis for comprehensive pension and health benefits reform. However, leaders in the Legislature and public employee unions have, since last spring, declined to negotiate with the Administration on further benefit reforms.

In addition to analysis on further benefit reform efforts, Moody’s writes that should legal efforts to overturn the freeze on pension COLAs implemented in 2011 succeed, New Jersey’s pension funding position and credit profile would be negatively impacted. The elimination of Cost of Living Adjustments (COLAs) as part of the 2011 pension reforms was designed to save State taxpayers billions of dollars.
Moody’s analysis also notes the significant challenges a constitutional requirement to make pension contributions would place on the State’s budget flexibility if passed. Additionally, the Moody’s report identified that requiring quarterly payments would challenge the State’s liquidity and increase the need for cash-flow borrowing.

“This report from Moody’s affirms what the Administration has repeated for years: Comprehensive pension and health benefits reform is the key to improving New Jersey’s credit profile. Conversely, if legal challenges dismantle aspects of the 2011 legislation, New Jersey’s credit rating could continue to suffer,” said Acting New Jersey State Treasurer Ford Scudder.

“If improving the State’s financial position is a true priority of the Legislature, then it is time for lawmakers to negotiate with the Governor again on additional, meaningful benefits reform.”