MERCATUS CENTER
George Mason University

RESEARCH SUMMARY

New Jersey's Pension Crisis: What Will Make It Worse, What Can Make It Better

New Jersey's pension-funding crisis is among the worst in the country. For years, the state has made generous pension promises to government workers without funding those promises. As a result, it has accumulated many billions of dollars in unmet pension-funding liability.

In "The New Jersey Pension Crisis: Flailing in Deep Waters," Scott Andrew Shepard reviews efforts to redress the crisis and evaluates their chances of success.

- *Raising taxes on the wealthy*. The proposed "millionaires' surtax" would likely spur high-earner flight from New Jersey—the state already has one of the country's highest income tax rates. This would threaten a vicious cycle leading to economic decline that will do little to pay off pension promises while greatly injuring the state's financial condition.
- *Transferring more control over pension benefits to government-employee unions*. Such interests are already significantly overrepresented in pension decision-making, which partly explains the pension-funding crisis in the first place. The interests of taxpayers are underrepresented in decision-making.
- *Dedicating lottery funds to pension funding*. Because the lottery funds were not replaced by other revenue streams or offset by spending cuts, this 2017 move was at best an empty, cosmetic gesture. At worst, it will serve to disguise (and thus exacerbate) the funding crisis.

Shepard concludes that none of the above efforts are likely to fix, or even ameliorate, New Jersey's funding crisis. He argues that real reform means beginning to revise and reduce some of the state's pension promises. The author suggests the following:

- *For work not yet performed:* Switch current and future employees from defined-benefit to defined-contribution pension plans (such as 401[k]s). Plans of this type became the norm in the private sector and the federal government long ago.
- *For pension benefits already earned:* Make careful cuts in promised benefits to some classes of beneficiaries—namely, those best able to absorb them. Unless benefits are reduced significantly, New Jersey will find itself unable to fund these benefits, even if it were to dedicate the whole of the state's discretionary budget to the effort.

Shepard recommends one more thing: prompt action. Further delay in taking the necessary steps to address New Jersey's pension crisis will only increase the likelihood of more pervasive (and less equitable) cuts later on. New Jersey has no time to lose.