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**New Jersey pension funding crisis could set up bondholder versus pensioner war**

**By Maria Amante**

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The question of paying bondholders versus paying pensioners will factor into New Jersey's pension funding crisis at some point, said Tom Byrne, chairman of the State Investment Council.

Byrne made his remarks Friday at an event hosted by NJ Spotlight in Trenton.

"The question of bondholders will come into this at some point, I don't know how," Byrne said.

The funded ratio of New Jersey's pension systems has diminished over the past several years as the state's contributions failed to match outputs and investment returns have disappointed.

At the same time, state officials have not given the same deference to pension obligations as bondholders for many years, said Edward Richardson, executive director of the New Jersey Education Association. Debt payments have been sacrosanct while the state has used revenue intended for pensions to finance other expenditures, multiple panelists said.

"The state didn't have a choice about paying bondholders, and they found the money, or so we thought," Richardson said. "For once, the state should put pensioners at the same level as bondholders and then figure out spending for the year, because you failed to do that for the last 20 years. It's a really hard job, but that's why you took the job under the gold dome, with security and the helicopter."

Bondholders don't have a morally superior claim to pensioners in pension funding crises, said William Glasgall, director of state and local programs at The Volcker Alliance.

To address the problems, "requires a broad solution," Glasgall said.

Panelists were divided over a proposed constitutional amendment which would mandate quarterly pension payments to fund the system. The planned FY17 pension contribution of USD 1.86bn is about 40% of the actuarially required contribution (ARC). New Jersey's pension system had an aggregate 48.6% funded ratio and USD 43.8bn unfunded liability at the end of June 2015, as reported.

Although New Jersey hasn't made a full ARC in decades, the proposed ballot measure is tantamount to a fiscal straightjacket, especially as the amendment doesn't include a funding mechanism, Byrne said.

The underfunded pension system is the state's responsibility, said Hetty Rosenstein, state director of the Communication Workers of America. As workers and retirees make sacrifices, the state has not honored its obligation to fund the pension system, rendering the amendment necessary, she said.

"There's no need for a tax increase with the constitutional amendment, we oppose cutting taxes to the general fund, and many taxes to the one percent should be restored," Rosenstein said.

New Jersey is rated A2/negative by Moody's, A/negative by S&P and A/stable by Fitch Ratings.

A USD 13.48m tranche of 5.25% Series 2009O New Jersey general obligation bonds due 2021 last traded in odd lots at 116.51 to yield 1.813% on 8 July.