



The Cost to Ocean County of Providing Pension Benefits to Employees' Domestic Partners

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As a result of the passage of the Domestic Partnership Act of 2004, counties in New Jersey have the option of extending spousal pension benefits to domestic partners of county employees, just as the state does. One common question related to these benefits concerns their cost to the county, in this case to Ocean County. Based on the current structure of the pension plans that Ocean County employees belong to, and based on data from the State, I estimate that the cost to the county would be less than \$70,000 per year. Below I outline the details of how I arrived at this calculation.

Of the approximately 1,850 Ocean County employees, 1,450 are enrolled in the Public Employee Retirement System (PERS), and 400 are in the Police and Firemen's Retirement System (PFRS).¹ Extending benefits to domestic partners will have very little effect on members of PERS, since those members can already designate a domestic partner as a beneficiary for life insurance and pension survivor benefits. However, both PERS members' partners and PFRS members' partners would be eligible for survivor pensions should the member die in a work-related accident. The Accidental Death survivor pension for PERS members is 50% of final compensation and for PFRS members is 70% of final compensation. In addition, partners of PFRS members who die while employed or retired would also be given an "Ordinary Death" survivor benefit of 50% of the employee's final compensation until the survivor remarries or enters another domestic partnership.

In estimating the cost to the county of making these benefits available to domestic partners, I focus on the Ordinary Death benefits, since the Accidental Deaths are quite rare.² Since PERS members will see no effective difference in other benefits, the county will see no additional cost for PERS members. Therefore, I focus on the PFRS employees and estimate the number of workers in the PFRS system with partners, predict their mortality, and calculate the expected cost of their benefits.

Since July 2004, the State of New Jersey has seen 412 state employees sign up a partner for health benefits, a take-up rate of 0.3% of all active and retired employees in the state health plans.³ The first step in the calculation of costs is to apply this figure to the number of Ocean County employees and retirees in the system. In addition to the 400 active Ocean County members of PFRS, approximately 247 Ocean County PFRS members are retired.⁴ Thus given the small number of county employees in this system, we would expect only two to have a registered domestic partner. Even if the rate were 0.5%, a common take-up rate for partner benefits, we would only expect three partners. At a 1% rate the number of partners would be six.

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With such small numbers of partners, the cost of survivor benefits would be low. In any given year, the state's actuaries predict that the risk of ordinary death is low for active employees. For an employee aged 50, the risk of ordinary death is 0.25%.⁵ For a retiree aged 70, the annual risk of death is 2.75%. So in any given year, the expected number of deaths of employees with partners is a very small number, just barely above zero. Based on the mortality rates for age 50 and age 70 and the state's own partnership take-up rate, the expected number of deaths is 0.003 (active) and 0.02 (retired).

Obviously, a fraction of a death is not possible, but the fraction means that the county would see very few years in which an employee with a domestic partner dies. Depending on the age and health of the partners, the employees might outlive their partners, generating no additional costs to the PFRS. Once an employee with a domestic partner dies, the system pays a benefit of half of the employee's final compensation. Payments into PFRS by the county would ultimately have to cover any extra costs. At the current average salary paid by local employers to PFRS members, \$67,632, the benefit would be \$33,816 per year (plus cost-of-living adjustments).⁶ If 100% of Ocean County PFRS members with partners died, i.e., two people, the system would be paying \$67,632 per year (adjusted over time for cost-of-living increases) until one or both died or entered another partnership or marriage.

However, this estimate overstates the cost to Ocean County. Currently, if an unmarried employee dies, his or her children or surviving parents are eligible for survivor benefits, so recognizing domestic partners would simply shift the benefits to another person in those situations, generating no additional cost to Ocean County. If the employee has no such survivors, then his or her pension system contributions are paid to his or her named beneficiary. Since the PFRS does not return those contributions if the employee has an eligible survivor, the net cost to the system—and therefore to the county—would be reduced by those contributions. Since employees contribute 8.5% of their salaries, an employee earning the average salary of \$67,632 over twenty years would contribute \$115,000 to the system that would be retained if a partner received survivor benefits.⁷ This amount would cover several years' worth of survivor benefits for a deceased employee. Given the PFRS assumptions of an 8.75% interest rate and an annual 2.4% cost-of-living adjustment, the present discounted value of twenty years of one survivor's benefits at half the average salary is \$400,000. Therefore, the hypothetical (but plausible) retained contributions are equivalent to 25% of the cost of survivor benefits.⁸

Ultimately, the state's actuaries would calculate the amount by which the county's contribution would have to increase to cover the small expected increase in benefit payments. Currently the state's website offers a rough guide of an employer contribution increase ranging from 0.5% to

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1% of salaries. However, this guide will overestimate the costs for Ocean County employees in the PFRS for several reasons. First, the state's experience to date with health insurance benefits suggests a smaller-than-expected rate of partnership among county employees of 0.3%. Second, an active employee's Ordinary Death survivor benefit would be partially paid for by retained member contributions. Third, the large differences in mortality rates between men and women that tend to extend survivor payments for married employees would not be present for same-sex couples. Finally, given the data from the state and county, a very conservative estimate of a high-cost scenario suggests that the annual cost to Ocean County would be less than \$70,000 per year.⁹

¹ Figures from the Ocean County Department of Employee Relations, 1/10/06.

² For example, in FY2002 there were 4 accidental deaths, and in FY2004 there were 44 out of roughly 44,000 active PFRS members.

³ Figures for active members from Kathy Hennessy, Public Information Officer, Department of the Treasury, 1/10/06.

⁴ This estimate is calculated by multiplying 400 times the ratio of retirees to active employees in all of PFRS.

⁵ State of New Jersey Division of Pensions and Benefits, Fiscal Year 2004 Comprehensive Report, Statistical Section, p. 137. <http://www.state.nj.us/treasury/pensions/annreports-2004/statistical.pdf>.

⁶ Ibid, p. 140.

⁷ This calculation assumes that only the contributions without accumulated investment returns are given to the beneficiary.

⁸ The longer an employee has been employed, the higher their salaries and survivor benefits would be, but past contributions into the system would also have been greater to offset the higher survivor benefits.

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