

POLICE AND FIREMEN'S
RETIREMENT SYSTEM
OF NEW JERSEY



1987
Annual Report

**DEPARTMENT OF
THE TREASURY**

**DIVISION OF
PENSIONS**

FEATHER O'CONNOR
Treasurer

DOUGLAS R. FORRESTER
Director

**POLICE AND FIREMEN'S RETIREMENT SYSTEM
OF NEW JERSEY**

20 West Front Street
Trenton, New Jersey 08625

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To His Excellency
Thomas H. Kean
Governor of the State of New Jersey

Dear Sir:

The board of trustees of the Police and Firemen's Retirement System of New Jersey is pleased to present the Forty-Second Annual Report in compliance with the provisions of N.J.S.A. 43:16A-13.

Respectfully submitted,

RICHARD OLSEN,
Chairman

Annual Report

Chapter 188, Laws of 1986 permits Section 414(h) treatment of employees' contributions to the major state-administered retirement systems. This means that such contributions are exempt from federal income tax until withdrawn or utilized in the payment of retirement benefits. This law was approved on December 16, 1986 to become effective on January 1, 1987.

Chapter 162, Laws of 1986 permits members of the retirement system who qualify as veterans under pension laws, to purchase up to five years of service credit for military service rendered prior to their enrollment in the retirement system. Military service upon which another retirement benefit is being paid is ineligible for purchase. This law was approved and became effective on December 2, 1986.

Chapter 43, Laws of 1987 permits certain members of the county pension funds or retirement systems who were previously denied a transfer to the Police and Firemen's Retirement System due to the 35 year old entry age limitation for membership to transfer to that system. This law was approved and became effective February 19, 1987.

**TREASURER'S RECOMMENDATIONS
REGARDING CHAPTER 109, P.L. 1979**

In accordance with Section 3 of Chapter 109 of the Laws of 1979, the State Treasurer is required to report to the Legislature on the cost of funding the benefits provided by Chapter 109 in the Annual Report required by the statute. If in any year the state's liability to fund the benefits exceeds the value of the employee contribution increase and the application of interest earnings, the State Treasurer is to recommend further increase in employee contributions or such other action as he considers appropriate to offset any state liability.

The State Treasurer recommends that there be no further increase in employee contributions for several reasons: (1) the cost of this program is escalating rapidly because almost all members are electing the special retirement benefits provided by Chapter 109; (2) it is unfair to the majority of the members of the system who are younger and who will be paying the overwhelming portion of the cost during their active careers; and (3) an increase in employee contributions almost always results in a demand for increased salaries and consequently leads directly to increased pension costs as benefits are based on final salaries.

The State Treasurer therefore recommends that the provision of Chapter 109 be altered so that the contributions required in excess of the 1 percent paid by employees be met by local governments. The treasurer believes that it is inappropriate for the state to pay a portion of the cost of this pension plan which is principally composed of municipal employees. (The state is prepared to pay its share of the cost for state employees.)

Secondly, the municipal obligations under the Consolidated Police and Firemen's Pension Fund, the predecessor fund to the Police and Firemen's Retirement System, has come to an end with the final payment in January 1983, and thus the municipalities have the revenue sources with which to make such additional payments on behalf of their policemen and firemen.

**PARTICIPATING COUNTIES, MUNICIPALITIES,
FIRE DISTRICTS, AND COMMISSIONS**

Municipalities listed by Counties:

ATLANTIC COUNTY—Absecon City, Brigantine, Egg Harbor Township, Galloway Township, Hammonton, Linwood, Longport, Margate City, Northfield, Pleasantville, Somers Point, Ventnor City.

BERGEN COUNTY—Allendale, Alpine, Bergenfield, Bogota, Carlstadt, Cliffside Park, Closter, Cresskill, Demarest, Dumont, East Paterson, East Rutherford, Edgewater, Emerson, Englewood, Englewood Cliffs, Fair Lawn, Fairview, Fort Lee, Franklin Lakes, Garfield, Glen Rock, Hackensack, Harrington Park, Hasbrouck Heights, Haworth, Hillsdale, Ho-Ho-Kus, Leonia, Little Ferry, Lodi, Lyndhurst, Mahwah, Maywood, Midland Park, Montvale, Moonachie, New Milford, North Arlington, Northvale, Norwood, Oakland, Old Tappan, Oradell, Palisades Park, Ramsey, Ridgefield, Ridgefield Park, Ridgewood, River Edge, River Vale Township, Rochelle Park Township, Rutherford, Saddle River Boro, Saddle River Township, South Hackensack Township, Teaneck Township, Tenafly, Teterboro, Upper Saddle River, Waldwick, Wallington, Westwood, Woodbridge, Woodcliff Lakes, Wyckoff Township.

BURLINGTON COUNTY—Beverly, Bordentown, Bordentown Township, Burlington, Burlington Township, Cinnaminson Township, Delanco, Evesham Township, Florence Township, Maple Shade Township, Medford Township, Moorestown Township, Mount Holly Township, Mount Laurel Township, Palmyra, Riverside Township, Riverton, Willingboro.

CAMDEN COUNTY—Audubon, Audubon Park, Barrington, Bellmawr, Berlin, Berlin Township, Camden, Collingswood, Delaware Township, Gloucester City, Gloucester Township, Haddon Township, Haddonfield, Haddon Heights, Merchantville, Mount Ephraim, Oaklyn, Pennsauken Township, Runnemede, Voorhees Township, Waterford Township, Winslow Township, Woodlyne.

CAPE MAY COUNTY—Avalon Boro, Boro of Stone Harbor, Cape May City, Lower Township, Middle Township, North Wildwood, Ocean City, Sea Isle City, Wildwood, Wildwood Crest.

CUMBERLAND COUNTY—Bridgeton, Greenwich Township, Landis Township, Millville, Vineland.

ESSEX COUNTY—Belleville, Bloomfield, Caldwell Township, Cedar Grove, East Orange, Essex Fells, Glen Ridge, Irvington, Livingston, Maplewood Township, Millburn Township, Montclair, Newark, North Caldwell, Nutley, Orange, Roseland, South Orange, Verona, West Caldwell, West Orange.

GLOUCESTER COUNTY—Franklin Township, Glassboro, Logan Township, Monroe Township, Paulsboro, Pitman, Washington Township, West Deptford, Westville, Woodbury.

HUDSON COUNTY—Bayonne, East Newark, Guttenberg, Harrison, Hoboken, Jersey City, Kearny, North Bergen Township, Secaucus, Union City, Weehawken Township, West New York.

HUNTERDON COUNTY—Lebanon Township.

MERCER COUNTY—East Windsor Township, Ewing Township, Hamilton Township, Hightstown, Lawrence Township, Princeton, Princeton Township, Trenton, West Windsor Township.

MIDDLESEX COUNTY—Carteret, Dunellen, East Brunswick Township, Edison Township, Edison Township Fire District No. 1, Highland Park, Jamesburg, Metuchen, Middlesex, Milltown Boro, New Brunswick, Old Bridge, Perth Amboy, Piscataway Township, Plainsboro Township, Raritan Township Fire District No. 3, Sayreville, South Amboy, South Brunswick Township, South Plainfield, South River, Spotswood, Woodbridge Fire District No. 1, Woodbridge Fire District No. 7, Woodbridge Township.

MONMOUTH COUNTY—Aberdeen Township, Allenhurst, Asbury Park, Atlantic Highlands, Avon-by-the-Sea, Belmar, Bradley Beach, Brielle, Deal, Eatontown, Englishtown, Fair Haven, Freehold, Freehold Township, Hazlet Township, Highlands, Holmdel Township, Howell Township, Interlaken, Keansburg, Keyport, Little Silver, Long Branch, Manalapan Township, Manasquan, Matawan, Middletown Township, Monmouth Beach Boro, Neptune City, Neptune Township, Ocean Township, Oceanport, Red Bank, Rumson, Sea Bright, Sea Girt, Shrewsbury, South Belmar, Spring Lake, Spring Lake Heights, Tinton Falls Borough, Wall Township, West Long Branch.

MORRIS COUNTY—Boonton Township, Chatham, Chatham Township, Chester Township, Denville, Dover, East Hanover, Florham Park, Hanover Township, Harding Township, Jefferson Township, Kinnelon Boro, Lincoln Park Borough, Mendham, Mendham Township, Mine Hill Township, Montville Township, Morristown, Morris Township, Morris Plains, Mount Olive Township, Mountain Lakes, Parsippany-Troy Hills, Passaic Township, Pequannock Township, Randolph Township, Rockaway Township, Roxbury Township, Washington Township, Wharton Borough.

OCEAN COUNTY—Bayhead Borough, Berkeley Township, Brick Township, Dover Township, Jackson Township, Lacey Township, Lakehurst, Lakewood Township, Mantoloking, Point Pleasant, Point Pleasant Beach, Seaside Park Borough.

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PASSAIC COUNTY—Bloomingdale Borough, Clifton, Haledon, Hawthorne, Little Falls, North Haledon, Passaic, Paterson, Pompton Lakes, Prospect Park, Ringwood, Totowa, Wanaque, Wayne Township, West Milford Township, West Paterson.

SALEM COUNTY—Lower Penns Neck Township, Penns Grove, Salem, Upper Penns Neck Township, Woodstown Borough.

SOMERSET COUNTY—Bernards Township, Bernardsville, Bedminster, Bound Brook, Branchburg Township, Hillsborough Township, Manville, North Plainfield, Raritan, Somerville, South Bound Brook, Warren Township, Watchung.

SUSSEX COUNTY—Bryman Township, Hopatcong, Newton, Sparta.

UNION COUNTY—Berkeley Heights, Clark Township, Cranford, Elizabeth, Fanwood, Garwood, Hillside Township, Kenilworth, Linden, Mountainside, New Providence, Plainfield, Rahway, Roselle, Roselle Park, Scotch Plains Township, Springfield Township, Summit, Union Township, Westfield.

WARREN COUNTY—Alpha Borough, Hackettstown Town, Lopatcong Township, Mansfield Township, Phillipsburg, Pohatcong Township, Washington.

WATERFRONT COMMISSION OF NEW YORK HARBOR

N.J. State Departments and personnel defined by Chapter 156, P.L. 1973; County and County Parks under Chapter 92, P.L. 1973; and Chapters 302 and 303, P.L. 1975.

MEMBERSHIP

A normal rate of increase was experienced in enrollments, withdrawals, deaths and retirements for the year ended June 30, 1987. The net active membership increased by 975.

	<u>June 30</u> <u>1986</u>	<u>June 30</u> <u>1987</u>
TOTAL ENROLLMENT	2,605	3,266
SEPARATIONS		
(Withdrawals and Deaths)	653	714
RETIREMENTS	753	808
NET ACTIVE	29,954	30,929

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A COMPARISON OF THE ASSETS TO THE MEMBERSHIP

<u>Year Ended June 30</u>	<u>Net Active Membership</u>	<u>Assets of the Fund</u>
1950	4,545	\$ 3,310,901
1955	7,843	21,694,273
1960	11,475	67,173,255
1965	14,501	148,611,111
1970	18,442	332,440,199
1975	25,080	703,023,328
1980	26,714	1,383,370,617
1984	27,885	2,247,285,760
1985	28,786	2,522,118,860
1987	30,929	3,396,459,368

RETIREMENT

Significant increases in the retirement program indicate the maturity of the system. The new retirements that were effected during the year are classified as follows:

- 16 service retirements
- 676 special retirements
- 75 ordinary disabilities
- 41 accidental disabilities
- 2 accidental death
- 8 deferred retirements

During the period of the report, 77 insurance settlements were made to the beneficiaries of deceased active members resulting in a total payment of \$7,001,546. There were also insurance payments totaling \$2,454,391 to the beneficiaries of 190 retired members who died during the year.

Ernst & Whinney

ERST & WHINNEY

3131 Princeton Pike
Lawrenceville, New Jersey 08648
609/896-3223

Board of Trustees
Police and Firemen's Retirement System of New Jersey

We have examined the balance sheets of the Police and Firemen's Retirement System of New Jersey as of June 30, 1987 and 1986, and the related statements of revenues, expenses, and changes in fund balances and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Police and Firemen's Retirement System of New Jersey at June 30, 1987 and 1986, and the results of operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Lawrenceville, New Jersey
November 9, 1987

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

	June 30,	
	1987	1986
ASSETS		
Investments, at cost:		
Bonds (market value \$76,145,252 in 1987 and \$108,454,236 in 1986)	\$ 83,140,886	\$ 120,624,649
Common Pension Fund A (market value \$1,860,152,267 in 1987 and \$1,470,378,075 in 1986)	1,137,957,053	954,414,184
Common Pension Fund B (market value \$1,271,891,784 in 1987 and \$1,220,152,234 in 1986)	1,241,335,744	1,125,400,558
Cash Management Fund (market value \$87,143,634 in 1987 and \$57,770,382 in 1986)	87,143,634	57,770,382
Mortgages (market value \$529,235,419 in 1987 and \$415,073,499 in 1986)	541,038,858	407,353,939
TOTAL INVESTMENTS	<u>3,090,616,175</u>	<u>2,665,563,712</u>
Receivables:		
Contributions:		
Members	13,453,819	11,873,318
Employers	136,498,886	116,111,098
Investments:		
Accrued interest	36,845,423	32,074,098
Dividends	10,729,010	9,889,301
Members' loans	98,277,940	95,802,482
Due from Pension Adjustment Fund	1,630,612	1,473,848
Other	8,407,503	1,006,471
TOTAL RECEIVABLES	<u>305,843,193</u>	<u>268,230,616</u>
TOTAL ASSETS	<u><u>\$3,396,459,368</u></u>	<u><u>\$2,933,794,328</u></u>

1987 1986

LIABILITIES AND FUND BALANCES

Liabilities:

Retirement benefits payable	\$ 12,052,618	\$ 10,638,472
Death benefits payable	1,181,513	772,530
Cash overdraft	804,431	3,666,688
Accounts payable and accrued expenses	2,204,667	1,921,646
TOTAL LIABILITIES	<u>16,243,229</u>	<u>16,999,336</u>

Fund Balances:

Members' annuity savings fund	554,770,513	495,747,138
Pension accumulation fund	1,452,093,878	1,267,364,318
Retirement reserve fund	1,342,445,586	1,127,027,899
Special reserve fund	30,906,162	26,655,637
Other fund	0	0
TOTAL FUND BALANCES	<u>3,380,216,139</u>	<u>2,916,794,992</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$3,396,459,368</u></u>	<u><u>\$2,933,794,328</u></u>

See notes to financial statements.

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY**

	Members' Annuity Savings Fund	Pension Accumulation Fund	Retirement Reserve Fund	Special Reserve Fund	Other Fund	Totals	
						Year Ended 1987	June 30, 1986
REVENUES							
Contributions:							
Members	\$ 81,135,830				\$ 3,096	\$ 81,138,926	\$ 81,699,936
Employers		\$ 161,057,379				161,057,379	137,330,425
Investment revenue		130,326,384	\$ 80,044,439	\$ 126,381,330		336,752,053	253,608,821
Pension Adjustment Fund					19,302,124	19,302,124	17,309,738
Transfers from other system	7,470,346	19,407,103				26,877,449	2,287,203
Other			60,886		4,999	65,885	123,112
TOTAL REVENUES	<u>88,606,176</u>	<u>310,790,766</u>	<u>80,105,325</u>	<u>126,381,330</u>	<u>19,310,219</u>	<u>625,193,816</u>	<u>492,359,235</u>
EXPENSES							
Benefit payments			119,136,734		28,291	119,165,025	103,566,676
Withdrawals	4,877,758					4,877,758	4,398,251
Noncontributory group insurance death benefits		12,835,426				12,835,426	12,236,879
Pension Adjustment Fund					19,317,898	19,317,898	17,325,667
Other		227,475	36,842	5,311,452	793	5,576,562	21,747,428
TOTAL EXPENSES	<u>4,877,758</u>	<u>13,062,901</u>	<u>119,173,576</u>	<u>5,311,452</u>	<u>19,346,982</u>	<u>161,772,669</u>	<u>159,274,901</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	83,728,418	297,727,865	(39,068,251)	121,069,878	(36,763)	463,421,147	333,084,334
Transfers between reserves for:							
Retirements	(24,686,594)	(171,424,091)	196,110,685		0	0	0
Other	(18,449)	58,425,786	58,375,253	(116,819,353)	36,763	0	0
Fund balances at beginning of year	<u>495,747,138</u>	<u>1,267,364,318</u>	<u>1,127,027,899</u>	<u>26,655,637</u>	<u>0</u>	<u>2,916,794,992</u>	<u>2,583,710,658</u>
FUND BALANCES AT END OF YEAR	<u>\$554,770,513</u>	<u>\$1,452,093,878</u>	<u>\$1,342,445,586</u>	<u>\$ 30,906,162</u>	<u>\$ 0</u>	<u>\$3,380,216,139</u>	<u>\$2,916,794,992</u>

See notes to financial statements.

Prior year balances reclassified to conform to current year reporting.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

	Year Ended June 30,	
	1987	1986
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	\$463,421,147	\$333,084,334
Items not requiring (providing) financial resources:		
Accretion and amortization—net (Gain) Loss on sales and maturities of long-term investments	(1,491,380)	(1,302,117)
Net realized gain on Common Pension Funds A and B	(10,170,608)	4,456,498
	<u>(110,899,270)</u>	<u>(35,326,903)</u>
	340,859,889	300,911,812
Proceeds from sales and maturities of long-term investments	333,801,825	341,941,226
Increase in retirement benefits payable	1,414,146	1,474,360
Increase in death benefits payable	408,983	772,530
Increase in accounts payable and accrued expenses	283,021	246,683
TOTAL SOURCES OF FINANCIAL RESOURCES	<u>676,767,864</u>	<u>645,346,611</u>
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	606,919,778	719,326,704
Increase (decrease) in Cash Management Fund	29,373,252	(108,264,927)
Increase in contribution receivables	21,968,289	7,111,967
Increase in accrued investment income	5,611,034	1,793,153
Increase in members' loans	2,475,458	22,664,487
Increase in other receivables	7,557,796	935,244
TOTAL USES OF FINANCIAL RESOURCES	<u>673,905,607</u>	<u>643,566,628</u>
INCREASE IN CASH	2,862,257	1,779,983
CASH OVERDRAFT, beginning of year	(3,666,688)	(5,446,671)
CASH OVERDRAFT, end of year	<u>(\$ 804,431)</u>	<u>(\$ 3,666,688)</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

June 30, 1987

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Police and Firemen's Retirement System of New Jersey (System) are prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

Valuation of Investments:

Bonds with fixed maturities are reported at cost as of the settlement date, adjusted for amortization of premium or accretion of discounts on the straight-line basis for securities which mature within one year and the effective interest rate method for other securities.

Investments in the Common Pension Funds, commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants, are valued at cost plus undistributed realized net gains. At June 30, 1987, undistributed realized net gains amounted to \$112,394,406; consisting of \$110,603,900 in Common Pension Fund A and \$1,790,506 in Common Pension Fund B.

Investments in the Cash Management Fund are stated at a cost of \$1.00 per unit, which approximates quoted market.

Mortgages are valued at the amount of unpaid principal balance of the loan, adjusted for accretion of discounts which are amortized over the life of the loans.

Purchases and sales of investments in the Common Pension Funds are reflected on a trade date basis and on a settlement date basis for all other investments. Realized gains and losses on sales of investments are determined by the average cost basis and recognized as investment income when the sale occurs. Interest and dividend income on investments is recognized when earned.

Administrative Expenses:

The System is administered by the State of New Jersey Division of Pensions. All administrative expenses are allocated to the State and State-related (local government agencies) employers and they are responsible for such cost. The System's assets available for paying benefits are not reduced for administrative expenses.

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE B—DESCRIPTION OF THE FUND

Organization: The System is a contributory defined benefit plan which was established as of June 1, 1944, under the provisions of N.J.S.A. 43:16A. The System's designated purpose is to provide retirement benefits and other benefits to members. Membership in the System is mandatory for substantially all full-time county and municipal police or firemen and State firemen or officer employees with police powers appointed after June 1, 1944. The System's Board of Trustees is responsible for its organization and administration.

Contributions: The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members, State-related employers, and the State. Member contribution rates range from 7.73% to 10.62% of salary based on the member's age at date of enrollment. Once members are assigned a rate, it is not normally adjusted.

In accordance with the provisions of the above-named statute, contributions required of State and State-related employers are based upon an annual actuarial valuation computed as a percentage of the total compensation of all active members. For the year ended June 30, 1987, the amounts required of State and State-related employers were 16.79% and 16.01%, respectively, of active payroll which are comparable to prior year rates of 16.87% and 14.94%, respectively. The State appropriation for the year ended June 30, 1987, paid July 1, 1986, is based on the 1985 actuarial valuation and the State-related employer contributions are accrued at June 30, 1987, based on the most recent 1986 actuarial valuation. The normal contribution includes an amount that is required to fund noncontributory death benefits.

Actuarial Valuation: The contribution policy requires employers and the State to make a normal contribution and a past service contribution as determined by a qualified actuary. The System's actuary uses the "projected benefit method" to determine normal costs. As of June 30, 1986, the date of the most recent actuarial report, the actuary computed, utilizing the present method of funding, the unfunded actuarial liability of the State and State-related employers for prior service was \$126,066,058. This amount is to be funded over approximately 24 years.

Significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 6-3/4%; (b) assumed rate of salary increases ranging from 8.89% at age 25 to 5.07% at age 64; (c) assets valued at cost or amortized cost; and (d) mortality, vesting,

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE B—DESCRIPTION OF THE FUND—Continued

retirement age, and withdrawal estimates based on tables furnished by the actuary.

No actuarial assumptions were changed during the year. However, effective January 13, 1986, the plan was amended to increase survivor benefits from 25% to 35% of average final compensation which increased state and state-related employer contributions.

Loans Receivable: The System provides for member loans up to 50% of their accumulated member contributions. To obtain a loan, a member must have three years of contributions to the members' annuity savings account. Repayment of loan balances is deducted from payroll checks and bears an annual interest rate of 4%. Benefit payments are utilized to repay any outstanding loan balance upon retirement, termination, or death.

Pension Adjustment Program: Pursuant to N.J.S.A. 43:3B in 1958, eligible retirants receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60 percent factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. These cost-of-living increases are not payable by the System. The cost-of-living increases are made from the State of New Jersey Pension Adjustment Fund which is funded on a "pay as you go" basis by State appropriation.

Other: According to the retirement code, all obligations of the System will be assumed by the State should the System terminate.

Information about the System agreement, including vesting and benefit provisions, is contained in the pamphlet "Police and Firemen's Retirement in New Jersey." Copies of this pamphlet are available from the State of New Jersey Division of Pensions.

NOTE C—DESCRIPTION OF FUND BALANCES

Members' Annuity Savings Fund: The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System. Upon retirement of a member, the accumulated contributions

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE C—DESCRIPTION OF FUND BALANCES—Continued

are transferred to the Retirement Reserve Fund for subsequent payment of benefits.

Upon death or withdrawal from active service before qualifying for retirement, accumulated contributions are paid from the Members' Annuity Savings Fund.

Pension Accumulation Fund: The Pension Accumulation Fund is credited with the contributions of the State and other employers. Additionally, investment earnings of the Fund, after crediting the Retirement Reserve Fund, as required, are credited to this account.

Upon retirement of a member, the employer contributions necessary to produce the balance of the retirement reserve allowance are transferred to the Retirement Reserve Fund for subsequent benefit payments.

Each year, the amounts necessary as determined by the actuary for the payment of retirement benefits are transferred from the Pension Accumulation Fund to the Retirement Reserve Fund. In addition, payments for the group insurance made by The Prudential Insurance Company of America to provide noncontributory cash death benefits are made from the Pension Accumulation Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement allowances are paid. Upon retirement of a member, accumulated contributions are transferred to the Retirement Reserve Fund from the ASF. Any reserves needed to fund the balance of the retirement benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (6.75% for 1987 and 1986) is credited to the Retirement Reserve Fund. Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Pension Accumulation Fund upon advice of the actuary.

Special Reserve Fund: The Special Reserve Fund is the Fund to which any excess interest earnings and net realized gains or losses from the sale of securities are transferred. The maximum limit on the accumulation of this account is 1% of the book value of the investments of the Retirement Reserve Fund. Amounts in excess of 1% are credited to the Pension Accumulation Fund.

NOTE D—INVESTMENTS

The State of New Jersey Division of Investments under the jurisdiction

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE D—INVESTMENTS—Continued

of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions. All investments must conform to standards set by State law.

A summary of investment securities as of June 30, 1987 and the approximate market values follows:

	<u>Book Value</u>	<u>Market Value</u>
	(in 000's)	
Bonds:		
U.S. and Municipal Government bonds	\$ 797	\$ 894
Industrial bonds	27,735	25,511
Telephone bonds	8,233	7,283
Gas, electric, and water bonds	33,403	30,061
Finance companies—senior debt	2,909	2,740
Railroad equipment obligations	245	236
Other	9,818	9,420
	<u>83,140</u>	<u>76,145</u>
Mortgages	541,039	529,235
Common Pension Fund A	1,137,957	1,860,152
Common Pension Fund B	1,241,336	1,271,892
State of New Jersey Cash Management Fund	87,144	87,144
TOTAL	<u><u>\$3,090,616</u></u>	<u><u>\$3,824,568</u></u>

A State law, enacted on August 27, 1985, requires the Division of Investment to divest of all securities or other obligations of any company engaged in business in or with the Republic of South Africa by August 27, 1988. At June 30, 1987, the System is an 18% and 20% participant in the two State Common Pension Funds with applicable investments aggregating a cost of \$600 million and \$250 million, respectively. At June 30, 1986, the System had comparable participation in the two State Common Pension Funds and was also a participant in the State of New Jersey Cash Management Fund with applicable investments aggregating a cost of \$1.5 billion, \$696 million, and \$326 million, respectively. The market value of these investments at June 30, 1987 and 1986 equals or exceeds the applicable cost basis.

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE E—INCOME TAX STATUS

Based on a declaration of the Attorney General of the State of New Jersey, the System is a qualified plan as described in Section 401(a) of the Internal Revenue Code.

NOTE F—SUBSEQUENT EVENT

At June 30, 1987, the Fund had approximately \$722,195,000 of net unrealized appreciation (market value in excess of carrying value) on its share of equity securities in Common Pension Fund A. During October 1987, the stock market experienced unprecedented volatility and decline in value. As of October 31, 1987, the net unrealized appreciation on the Fund's share of equity securities that were in Common Pension Fund A at June 30, 1987 decreased to \$341,347,000. The effect on the market value of the remaining securities held at June 30, 1987 was immaterial.

Retirement benefits payable to the plan participants are set by state formulas which are not affected by the market value of pension fund assets. Furthermore, management believes the current decline in market value will not have an adverse effect on future contributions as actuarial valuations are based on the carrying value of investments.

ACTUARIAL VALUATION AS OF JUNE 30, 1986

ASSETS

Present Assets to Systems Creditable to:		
Retirement Reserve Fund:		
Credited to fund	\$1,127,103,338	
Deduct reserve transferable from Pension Accumulation Fund	58,852,482	\$1,185,955,820
Annuity Savings Fund including \$142,741 in Suspense Fund		495,915,792
Pension Accumulation Fund excluding contribution accruals and including interest accruals:		
Credited to fund	\$1,151,869,470	
Add reserve transferable to Retirement Reserve Fund	58,852,482	1,093,016,988
Special Reserve Fund		<u>26,655,637</u>
Total		\$2,801,544,237
Prospective contributions of members	\$ 858,792,375	
Prospective contributions of employers including contribution accruals:		
Normal contributions	1,950,997,104	
Accrued liability contributions	<u>126,066,058</u>	<u>2,935,855,537</u>
<u>Total Assets</u>		<u><u>\$5,737,399,774</u></u>

LIABILITIES

Present value of benefits payable on account of beneficiaries now drawing allowances from Retirement Reserve Fund		\$1,185,955,820
Present value of prospective benefits for which reserves are being accumulated in the Annuity Savings Fund and the Pension Accumulation Fund:		
Service retirement allowances including special retirement and vesting benefits and Unclaimed Accounts	\$3,438,839,430	
Ordinary disability retirement allowances	119,742,698	
Accidental disability retirement allowances	137,140,840	
Ordinary death benefits on account of members dying prior to retirement	221,903,572	
Lump sum death benefits payable upon death after retirement	142,216,868	
Accidental death benefits	22,364,977	
Return of members' contributions upon withdrawal before retirement	61,143,696	
Pensions to beneficiaries of employees payable upon death after retirement	<u>408,091,873</u>	
Total Liabilities		<u><u>\$5,737,399,774</u></u>

LEVEL OF FUNDING

With respect to the funding of the system, the following is an excerpt from page 27 of the actuarial valuation of June 30, 1986.

In conjunction with the current valuation, the level of funding of the system, as measured by the ratio of valuation assets to projected accrued liabilities under the traditional approach has been determined to be:

Projected Accrued Liabilities	\$3,655,744,000
Valuation Assets	\$2,917,039,085
Funding Level	79.8%

The projected accrued liabilities is calculated using the valuation interest rate (6¾%) and salary scales. Valuation assets are based on book value as reported in the Fund's financial statements. The calculations are made as of June 30.

The retirement system believes that misleading inferences concerning the system's funding may result from a comparison of the actuarial present value of accumulated system's benefits with the fair value of net assets available for system benefits. This is because the system's assets have been accumulated by making contributions equal to the current year's costs determined on an ongoing basis, while the determination of the actuarial present value of accumulated system benefits required by FASB #35 and 36 has been made using methods and assumptions which are not the same as those used to determine the pension costs for the current year. For example, the required method for determining the actuarial present value of accumulated system benefits fails to take into consideration future wage and salary increases which have been considered by the actuary and the retirement system in determining the costs of the system. Furthermore, the fair value of net assets for system benefits will fluctuate, which may create erroneous impressions with respect to the long term progress on funding the retirement system. The retirement system is concerned that, from an ongoing perspective, the financial statements pursuant to FASB #35 and 36 materially overstate the funded status of the system and can lead employers, on one hand, to believe that a cutback in appropriation for funding may be proper, while leading employee organizations to recommend benefit liberalizations to be financed as a result of what appears to be a near-surplus financial position.

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Police and Firemen's Retirement System

State of New Jersey

CN 295

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