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STATE OF NEW JERSEY  
TEACHERS' PENSION AND  
ANNUITY FUND



1991  
*Annual Report*



DEPARTMENT OF THE TREASURY  
Douglas C. Berman, *Treasurer*

DIVISION OF PENSIONS  
Margaret M. McMahon, *Director*

## TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

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To His Excellency  
Jim Florio  
Governor of the State of New Jersey

Dear Sir:

The Board of Trustees of the Teachers' Pension and Annuity Fund is pleased to present the Seventy-Second Annual Report in compliance with the provisions of N.J.S.A. 18A:66-59.

Respectfully submitted,

HARRY BALDWIN  
Chairperson

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## SIGNIFICANT LEGISLATION

**CHAPTER 137, LAWS OF 1991** provides certain early retirement incentive benefits to State employees who are members of the Alternate Benefit Program, Public Employees' Retirement System or Teachers' Pension and Annuity Fund. The basic requirements are that the member must be at least 50 years old with 25 years of service credit within the retirement system or at least age 60 with 20 years of service in the retirement system. The member must file a retirement application on or before August 1, 1991 with an effective date between April 1, 1991 and September 1, 1991.

Public Employees' Retirement System and Teachers' Pension and Annuity Fund members age 50 with 25 or more years of service credit will receive an additional five years of service credit added to their actual service credit. Eligible veterans within the Public Employees' Retirement System and Teachers' Pension and Annuity Fund will receive an incentive in the amount of 5/60ths of their final year's salary. Eligible Alternate Benefit Program retirees will receive an amount equal to 100 percent of their base annual salary at the time of their retirement.

The incentive for eligible retirees age 60 or older with at least 20 years of service credit but less than 25 years of service credit is that their premiums for the State Health Benefits Program will be paid by the State.

This law provides the capability of the employer and employee to extend or delay the effective retirement date until September 1, 1992 without losing the early retirement incentive benefits. This law was approved and became effective on May 13, 1991.

**CHAPTER 138, LAWS OF 1991** expands the rights of Public Employees' Retirement System, Teachers' Pension and Annuity Fund and Police and Firemen's Retirement System members to purchase service credit for certain temporary service and establishes uniform conditions for the purchase of all service credit. Chapter 138 permits the purchase of credit concerning temporary service (including certain substitute teaching in the Teachers' Pension and Annuity Fund) that immediately preceded permanent employment with the same employer. The cost of such temporary service purchases will be based upon the member's current age and either current salary or the highest salary for which contributions were made during any fiscal year of membership, whichever is greater. An actuarial factor will also be utilized in the computation of the purchase cost.

Until April 1, 1992, an eligible member could have purchased any portion of eligible temporary service. Since that date, the member is required to purchase the entire period of eligible temporary service. This law was approved and became effective May 20, 1991.

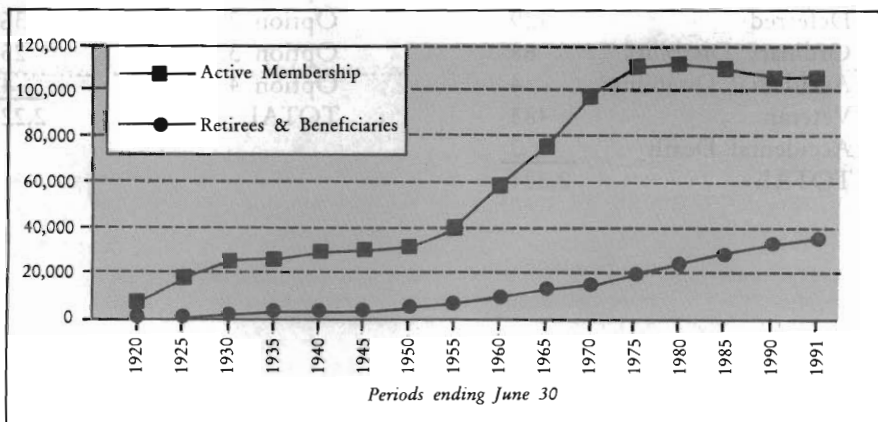
CHAPTER 153, LAWS OF 1991 permits Public Employees' Retirement System, Teachers' Pension and Annuity Fund and Police and Firemen's Retirement System members to purchase service credit for certain civilian employment or military service with the United States government or other states. In order to be eligible for such purchase, the civilian service must be the type of public employment that would be eligible for credit in the New Jersey State-administered retirement system if the service was rendered in New Jersey. The member's cost will be computed by utilizing an actuarial factor and neither the state nor the employer will be liable for any costs associated with the financing of the pension adjustment or health care benefits for retirees when purchasing such service credit. This law was approved on June 6, 1991 and became effective on July 1, 1991.



## MEMBERSHIP

- As of June 30, 1991, the active contributing membership of the system totaled 105,856\*.
- There were 35,152 retirees and beneficiaries receiving annual pensions totaling \$459,011,975. (This includes benefits paid under the provisions of the Pension Adjustment Act.)
- Beneficiaries of 1,265 deceased active and retired members received lump sum death benefits in the amount of \$30,541,634.
- The system's assets totaled \$10,588,592,402 at the close of fiscal year 1991.

*\*Total Inactive Membership as of June 30, 1991 was 10,207.*



## MEMBERSHIP ACTIVITY

During fiscal year 1991, the following transactions were processed by the Division of Pensions on behalf of the membership of the Teachers' Pension and Annuity Fund of New Jersey.

- **WITHDRAWAL**—3,089 members withdrew from the system.
- **LOANS**—25,688 members applied for and received loans on their accounts totaling \$89,113,700.
- **RETIREMENT**—2,224 members retired under the following retirement types and options:

### TYPE OF RETIREMENT

Service	1,034
Early	506
Deferred	129
Ordinary Disability	68
Accidental Disability	4
Veteran	483
Accidental Death	<u>0</u>
<b>TOTAL</b>	<b>2,224</b>

### OPTION SELECTION

Maximum	1,213
Option 1	342
Option 2	368
Option 3	259
Option 4	<u>42</u>
<b>TOTAL</b>	<b>2,224</b>

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Teachers' Pension and Annuity Fund  
of New Jersey

We have audited the accompanying component unit financial statements of the State of New Jersey Teachers' Pension and Annuity Fund (the "Fund") as of June 30, 1991 and 1990, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Teachers' Pension and Annuity Fund at June 30, 1991 and 1990, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

We have also previously audited, in accordance with generally accepted auditing standards, the component unit financial statements of the Fund for the four years ended June 30, 1989 (none of which are presented herein); and we expressed unqualified opinions on those component unit financial statements.

In our opinion, the information set forth in the required supplementary information for each of the six years in the period ended June 30, 1991, appearing on pages 23, 24 and 25 fairly stated in all material respects, in relation to the component unit financial statements, from which it has been derived, taken as a whole. With respect to such information for each of the four years in the period ended June 30, 1985, appearing on page 25 we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information for each of the four years in the period ended June 30, 1985 and express no opinion on it.

*Ernst & Young*  
October 22, 1991

**BALANCE SHEETS**

**State of New Jersey**

**Teachers' Pension and Annuity Fund**

	<b>JUNE 30</b>	
	<b>1991</b>	<b>1990</b>
<b>ASSETS</b>		
Investments, at cost:		
Bonds (market value of \$214,885,228 in 1991 and \$172,269,616 in 1990)	\$ 215,734,784	\$ 178,877,766
Common Pension Fund A (market value of \$5,855,736,442 in 1991 and \$5,299,131,492 in 1990)	3,846,183,015	3,496,715,961
Common Pension Fund B (market value of \$3,892,488,815 in 1991 and \$3,419,373,957 in 1990)	3,842,398,569	3,406,927,129
Common Pension Fund D (market value of \$139,221,100 in 1991)	140,083,630	0
Cash Management Fund (market value of \$645,510,164 in 1991 and \$659,446,827 in 1990)	645,510,164	659,446,826
Mortgages (market value of \$1,549,420,564 in 1991 and \$1,484,610,635 in 1990)	1,509,969,251	1,473,307,705
<b>TOTAL INVESTMENTS</b>	<b>10,199,879,413</b>	<b>9,215,275,387</b>
Receivables:		
Contributions:		
Members	52,826,624	48,063,522
Employer	584,220	276,339
Investments:		
Accrued interest	108,117,172	97,199,527
Dividends	43,214,728	38,534,134
Members' loans	141,891,526	136,741,732
Other	3,149,635	2,642,139
<b>TOTAL RECEIVABLES</b>	<b>349,783,905</b>	<b>323,457,393</b>
Cash	38,929,084	
<b>TOTAL ASSETS</b>	<b>\$10,588,592,402</b>	<b>\$9,538,732,780</b>

See notes to financial statements.

**BALANCE SHEETS**

**State of New Jersey**

**Teachers' Pension and Annuity Fund**

**JUNE 30**

**1991**

**1990**

**LIABILITIES AND FUND BALANCES**

**Liabilities:**

Retirement benefits payable	\$ 39,799,273	\$ 35,529,197
Death benefits payable	1,460,892	1,168,002
Cash overdraft	0	5,455,026
Payable for investments purchased	65,797,409	17,449,531
Accounts payable and accrued expenses	4,359,287	5,724,480
<b>TOTAL LIABILITIES</b>	<b>111,416,861</b>	<b>65,326,236</b>

**Fund Balances:**

Members' annuity savings fund and accumulative interest	2,164,292,407	1,964,136,151
Contingent reserve fund	3,637,594,547	3,329,958,726
Retirement reserve fund	4,521,586,055	4,037,693,768
Special reserve fund	101,521,105	91,695,469
Contributory group insurance premium fund	52,181,427	49,922,430
<b>TOTAL FUND BALANCES</b>	<b>10,477,175,541</b>	<b>9,473,406,544</b>

**TOTAL LIABILITIES & FUND BALANCES**

**\$10,588,592,402**

**\$9,538,732,780**

*See notes to financial statements.*

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND  
BALANCES

State of New Jersey Teachers' Pension and Annuity Fund

	FUND BALANCES		
	Members' ASF & Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund
<b>REVENUES</b>			
Contributions:			
Members	\$ 172,724,019		
Employer		\$ 578,285,349	
Investment revenue	128,822,081	361,063,787	\$ 294,573,479
Other			
<b>TOTAL REVENUES</b>	<u>301,546,100</u>	<u>939,349,136</u>	<u>294,573,479</u>
<b>EXPENSES</b>			
Benefit payments			358,246,434
Cost-of-living adjustment			100,765,541
Withdrawals	13,727,134		
Noncontributory group insurance death benefits		16,481,335	
Administrative expense		8,110,762	
Post-retirement medical benefits and other		46,453,145	
<b>TOTAL EXPENSES</b>	<u>13,727,134</u>	<u>71,045,242</u>	<u>459,011,975</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	287,818,966	868,303,894	( 164,438,496)
Transfers between funds for:			
Retirements	( 87,788,405)	( 390,653,501)	478,441,906
Other	125,695	( 170,014,572)	169,888,877
Fund balances at beginning of year	<u>1,964,136,151</u>	<u>3,329,958,726</u>	<u>4,037,693,768</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u><u>\$2,164,292,407</u></u>	<u><u>\$3,637,594,547</u></u>	<u><u>\$4,521,586,055</u></u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND  
BALANCES

State of New Jersey Teachers' Pension and Annuity Fund

FUND BALANCES				
Special Reserve Fund	Contributory Group Insurance Premium Fund	Other Fund	TOTALS	
			Year Ended June 30	
			1991	1990
	\$16,131,349		\$ 188,855,368	\$ 175,061,392
			578,285,349	524,372,216
\$ 9,825,636	4,016,748		798,301,731	773,110,542
		\$44,797	44,797	57,283
9,825,636	20,148,097	44,797	1,565,487,245	1,472,601,433
			358,246,434	321,810,038
			100,765,541	93,729,102
			13,727,134	10,941,882
			16,481,335	12,702,800
			8,110,762	8,486,968
	17,889,100	44,797	64,387,042	50,241,608
0	17,889,100	44,797	561,718,248	497,912,398
9,825,636	2,258,997	0	1,003,768,997	974,689,035
			0	0
			0	0
91,695,469	49,922,430	0	9,473,406,544	8,498,717,509
\$101,521,105	\$52,181,427	\$ 0	\$10,477,175,541	\$9,473,406,544

See notes to financial statements.



STATEMENTS OF CHANGES IN FINANCIAL POSITION

State of New Jersey  
Teachers' Pension and Annuity Fund

	JUNE 30	
	1991	1990*
<b>SOURCES OF FINANCIAL RESOURCES</b>		
Excess of revenues over expenses	\$1,003,768,997	\$ 974,689,035
Items not requiring (providing) financial resources:		
Accretion and amortization—net	( 5,126,877)	( 4,829,260)
Net gain on sales and maturities of long-term investments	( 2,235,350)	( 1,626,114)
Net realized gain on Common Pension Funds A, B and D	( 59,439,366)	( 104,611,795)
	<u>936,967,404</u>	<u>863,621,866</u>
Proceeds from sales and maturities of long-term investments	317,409,785	336,732,975
Decrease in Cash Management Fund	13,936,662	0
Increase in death benefit payable	292,890	90,590
Increase in payable for investments purchased	48,347,878	0
Decrease in other receivables	0	301,971
Increase in retirement benefits payable	<u>4,270,076</u>	<u>3,349,548</u>
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b>	<b>1,321,224,695</b>	<b>1,204,096,950</b>
<b>USES OF FINANCIAL RESOURCES</b>		
Purchases of long-term investments	1,249,148,880	744,437,069
Increase in Cash Management Fund	0	428,395,209
Increase in contributions receivable and other	5,578,479	5,172,151
Increase in accrued investment income	15,598,239	10,756,837
Increase in member loans	5,149,794	8,247,468
Decrease in accounts payable and accrued expenses	1,365,193	92,005
Decrease in payable for investments purchased	<u>0</u>	<u>8,356,751</u>
<b>TOTAL USES OF FINANCIAL RESOURCES</b>	<b>1,276,840,585</b>	<b>1,205,457,490</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>44,384,110</b>	<b>( 1,360,540)</b>
Cash (overdraft), beginning of year	( 5,455,026)	( 4,094,486)
<b>CASH (OVERDRAFT), END OF YEAR</b>	<b>\$ 38,929,084</b>	<b>\$( 5,455,026)</b>

\*Reclassified to conform with current year presentation.

See notes to financial statements.



## NOTES TO FINANCIAL STATEMENTS

State of New Jersey

Teachers' Pension and Annuity Fund

June 30, 1991

### NOTE A—Significant Accounting Policies

The financial statements of the Teachers' Pension and Annuity Fund (the "Fund") are prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

Financial statement footnote disclosures are in accordance with Statement Number 5 of the Governmental Accounting Standards Board, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers."

Valuation of Investments: Bonds with fixed maturities are reported at cost 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 long-term 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 net realized gains. At June 30, 1991, such cumulative undistributed net realized gains amounted to \$72,027,097, consisting of \$56,486,129 in Common Pension Fund A, \$15,358,380 in Common Pension Fund B and \$182,588 in Common Pension Fund D.

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

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

Purchases and sales of investments are reflected on a trade date basis. 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 Fund is administered by the State of New Jersey Division of Pensions. Legislation passed during the year ended June 30, 1990, requires administrative expenses to be paid by the Fund and to be included in the normal cost of future State employer contributions.

Organization: The Fund is a single-employer contributory defined benefit plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. The Fund is considered a component unit of the State of New Jersey and is included along with other State-administered pension trust funds in the general purpose financial statements of the State.

The Fund's designated purpose is to provide retirement benefits, medical benefits for qualified retirees (which are subordinate to the retirement benefits), and other benefits to members. Membership in the Fund is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners and employees of the Department of Education that have titles that are unclassified, professional and certified. The Fund's Board of Trustees is responsible for its organization and administration.

Membership in the Fund as of March 31, 1990, the date of the most recent actuarial valuation, was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	35,849
Active members:	
Vested	73,681
Non-Vested	40,283
TOTAL ACTIVE MEMBERS	113,964

Loans Receivable: The Fund 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.

Vesting and Benefit Provisions: The vesting and benefit provisions are set by N.J.S.A. 18A:6c. The Fund provides retirement, death, and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after 10 years of service, except for medical benefits which vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of final average salary for each year of service credit. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after

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achieving 10 years of service in which case benefits would begin the first day of the month after the member attains normal retirement age.

The Fund provides specific medical benefits for members who retire after 25 years of qualified service or under the disability provisions of the Fund.

Members are always fully vested for their own contributions and after 3 years of service credit become vested for 2% of related interest on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Legislation was passed in 1991 which provides early retirement incentives to state employees who meet certain age and service requirements and apply for retirement between April 1, 1991 and September 1, 1991. An employee who is at least 50 with a minimum of 25 years of service will receive an additional 5 years of service credit. An employee who is at least 60 with a minimum of 20 years of service will receive paid health coverage. The cost of the additional benefits, which has not been determined to date, will be added to the unfunded accrued liabilities of the State and is expected to be funded along with prior service cost over the remaining amortization period for unfunded liabilities discussed in Note D.

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

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

## **NOTE C—Pension Benefit and Post-Retirement Medical Benefit Obligations**

The following "pension benefit and post-retirement medical benefit obligations" are the actuarial present values of credited projected benefits. They are standardized disclosure measures representing the present value of benefits adjusted for the effects of projected salary increases estimated to be payable in the future based on employee service credit to date. This measure is independent of the actuarial funding method used to determine employer contributions to the Fund discussed in Note D.

The benefit obligations were determined as part of the most recent annual actuarial valuation dated March 31, 1990. The liabilities were determined as of March 31 and projected forward to June 30, 1990 allowing for increases in benefits and variations in the population during the three month period.

The projected pension benefit and post-retirement medical benefit obligations as of June 30, 1990 were:

	Pension Benefit Obligation in 000s	Post-Retirement Medical Benefit Obligation in 000s
Benefit Obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 4,049,140	\$ 744,959
Current Employees:		
Accumulated employees' contributions with interest	1,964,140	
Employer-financed—vested	7,116,390	2,327,906
Employer-financed—non-vested	314,790	122,521
Total benefit obligations, including cost-of-living adjustments	13,444,460	3,195,386
Net assets available for benefits at book value (market value of net assets available for benefit obligations amounts to \$11,861,709)	9,996,423	50,998
Unfunded benefit obligations	\$ 3,448,037	\$3,144,388

The above pension benefit and post-retirement medical benefit obligations were calculated based on the actuarial assumptions of

- discount rate of 7¾% compounded annually;
- salary increases ranging from 7.83% at age 25 to 3.6% at age 70 which includes inflation, merit and productivity;
- assets valued at cost or amortized cost;
- 2¼% increase in cost-of-living benefit provisions;
- mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary; and
- medical premium increases of 10% for the next seven years and 7% thereafter.

## NOTE D—Contribution Policy

The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and the State. Member contribution rates range from 5.05% to 9.09% of salary based on the members' age at date of enrollment. Once members are assigned a rate, it is not normally adjusted.

Total pension contributions for the year ended June 30, 1991 were



\$751,009,368 (\$578,285,349 from the State and \$172,724,019 from members, or 13.9% and 4.1%, respectively, of annual covered compensation) of which \$340,961,351 represented the recommended normal contribution amount and \$233,053,037 related to the accrued liability funding. The current year State contributions are based on the 1990 actuarial valuation.

In accordance with the provisions of Chapter 385, P.L. 1987, contributions of the State consist of a normal contribution and an accrued liability contribution as determined by a qualified actuary. The Fund's actuary uses the "entry age normal cost method with frozen initial unfunded accrued liability" to determine normal costs which were determined to be \$383,147,232 as of March 31, 1990. The normal contribution includes cost-of-living adjustments and the costs for medical premiums after retirement for qualified retirees and an amount that is required to fund noncontributory death benefits. As of the same date, the actuary computed that utilizing the present method of funding, the present value of the unfunded frozen actuarial accrued liability for basic allowances and cost-of-living adjustments was \$2,539,718,910 to be funded over a 30-year period as of July 1, 1990. Additional, unfunded frozen actuarial accrued liabilities for post-retirement medical premiums for qualified retirees at present value were \$567,701,785, and these amounts will also be funded over a 30-year period as of July 1, 1990.

The annual interest assumption used for valuing the Fund was 7% in 1991 as compared to 6 $\frac{7}{8}$ % in the prior year. The effect of this change in the interest rate was to decrease the normal contribution by \$29,050,097 or .74% of covered payroll. This rate differs from the rate used to compute the standardized measure of the benefit obligation discussed in Note C above which was 7 $\frac{3}{4}$ % in 1990 and 1989. Other significant assumptions were the same except that future salary increases are based on salary scales that are 1 $\frac{1}{4}$ % lower than the pension benefit obligation calculation.

## **NOTE E—Description of Fund Balances**

Members' Annuity Savings Fund and Accumulative Interest: The Members' Annuity Savings Fund and Accumulative Interest (ASF) is credited with all contributions made by active members of the Fund. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer which was 7% and 6 $\frac{7}{8}$ % for the years ended June 30, 1991 and 1990, respectively. After three years of participation, withdrawing members receive interest at an annual rate of 2% of their accumulative contributions with the remaining portion of interest forfeited.

Upon retirement of a member, the accumulated contributions plus interest 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 plus applicable interest are paid from the Members' Annuity Savings Fund.

Contingent Reserve Fund: The Contingent Reserve Fund is credited with the contributions of the State. Additionally, interest earnings of the Fund, after crediting the ASF and 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, 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 Contingent Reserve Fund to the Retirement Reserve Fund. In addition, payments for noncontributory cash death benefits and post-retirement medical benefits are made from the Contingent Reserve Fund.

Chapter 385, P.L. 1987 and Chapter 384, P.L. 1987 provide that pension adjustment (cost-of-living) benefits and health care benefits for qualified retirees shall be funded through the Contingent Reserve Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits are paid, including cost-of-living benefits, which are funded through the Contingent Reserve Fund. Upon retirement of a member, accumulated contributions, together with accumulated regular interest, are transferred to the Retirement Reserve Fund from the ASF. Any reserves needed for the additional retirement benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (7% in 1991 and 6⅞% in 1990) 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 Contingent Reserve Fund upon advice of the actuary.

Special Reserve Fund: The Special Reserve Fund is the Fund to which 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 Fund excluding investments allocated to the Contributory Group Insurance Premium Fund which was \$47,768,910 in the Cash Management Fund at June 30, 1991. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund: The Contributory Group Insurance Premium Fund represents the accumulation of member contribu-

tions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carrier.

Members are required by statute to participate in the contributory group insurance plan in this first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for this coverage is 4/10 of 1% of salary.

## NOTE F—Investments

The State of New Jersey Division of Investments under the jurisdiction 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.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the Fund, through the State Treasurer, and custodian banks as agents for the Fund. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institution, amount of the portfolio to be covered by the agreements, and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of investment risk assumed by the Fund at June 30, 1991. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Trust Department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Fund's name. As of June 30, 1991, all investments held by the Fund are classified as Category 1.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the Fund. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the Fund. The custodian banks as agents for the Fund maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Fund.

Securities not maintained by the Federal Reserve Banks or DTC are in the name of a designated nominee representing the securities of the Fund which establishes the Fund's unconditional right to the securities.

A summary of investment securities as of June 30, 1991 and the approximate market values follows:

	Amortized Cost in 000s	Market Value in 000s
<b>Bonds:</b>		
U.S. and municipal government bonds	\$ 5,875	\$ 6,132
Industrial bonds	3,667	3,651
Telephone bonds	12,528	11,551
Gas, electric, and water bonds	59,654	57,761
Finance companies—senior debt	7,099	7,100
Railroad equipment obligations	981	983
Other	125,931	127,707
<b>SUBTOTAL</b>	<b>\$215,735</b>	<b>214,885</b>
Common Pension Fund A	3,846,183	5,855,736
Common Pension Fund B	3,842,398	3,892,489
Common Pension Fund D	140,084	139,221
State of New Jersey Cash Management Fund	645,510	645,510
Mortgages	1,509,969	1,549,421
<b>TOTAL</b>	<b>\$10,199,879</b>	<b>\$12,297,262</b>

Investments in excess of 5% of net assets are:

	June 30, 1991 in 000s	June 30, 1990 in 000s
Common Pension Fund A	\$3,846,183	\$3,496,716
Common Pension Fund B	3,842,398	3,406,927
State of New Jersey Cash Management Fund	645,510	659,446

## NOTE G—Income Tax Status

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

## NOTE H—Historical Trend Information

Historical trend information designed to provide information about the Fund's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 23 and 25.



# REQUIRED SUPPLEMENTARY INFORMATION

## ANALYSIS OF FUNDING PROGRESS

(In millions)

Information from the most recent actuarial valuation for the fiscal year end:

### Pension Benefit Obligation

Fiscal Year	(1) Net Assets Available For Benefits	(2) Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Benefit Obligation As A % Of Covered Payroll (4) ÷ (5)
1986	\$5,033.3	\$ 5,174.8	97.3%	\$ 141.5	\$2,763.9	5.1%
1987	5,840.4	6,831.0	85.5	990.6	3,011.7	32.9
1988	7,144.9	10,522.5	67.9	3,377.6	3,241.9	104.2
1989	8,175.5	11,654.9	70.1	3,479.4	3,536.9	98.4
1990	8,967.1	12,134.1	73.9	3,167.0	3,857.3	82.1
1991	9,996.4	13,444.5	74.4	3,448.1	4,171.5	82.7

### Post-Retirement Medical Premiums Obligation

Fiscal Year	Net Assets Available for Benefits	Benefit Obligation	Percentage Funded	Unfunded Benefit Obligation
1988	0	\$2,306.4	0	\$2,306.4
1989	0	2,200.7	0	2,200.7
1990	\$54.2	3,333.5	2%	3,279.3
1991	51.0	3,195.4	2	3,144.4

Analysis of the dollar amounts of net assets available for benefits, benefit obligation, and unfunded benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the benefit obligation provides one indication of the Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Fund. Trends in unfunded benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress

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made in accumulating sufficient assets to pay benefits when due. Generally,  
the smaller this percentage, the stronger the Fund.

Information for the four years prior to the year ended June 30, 1986  
is unavailable.

Note—Beginning in 1988, the pension benefit obligation reflects the  
impact of funding cost-of-living adjustments. Also, the post-retirement medical  
premiums funding became effective in 1988.

# REQUIRED SUPPLEMENTARY INFORMATION REVENUES BY SOURCE AND EXPENSES BY TYPE

(Unaudited for each of the four years in the period ended June 30, 1985)

## REVENUES BY SOURCE

Plan Fiscal Year	Members' Contributions	Employer Contributions	% of Annual Covered Compensation	Investment Revenue	Total
1982	\$ 79,281,519	\$205,247,825	9.76	\$285,534,902	\$ 570,064,246
1983	85,755,631	235,805,262	10.52	299,442,076	621,002,969
1984	91,170,531	253,395,280	10.54	346,760,249	691,326,060
1985	98,561,518	280,652,017	10.97	397,087,025	776,300,560
1986	110,656,183	299,499,600	10.84	466,831,691	876,987,474
1987	126,885,089	321,560,276	10.68	716,836,949	1,165,282,314
1988	135,126,715	359,773,275	11.10	722,967,594	1,217,867,584
1989	148,105,445	469,268,698	13.30	729,876,912	1,347,251,055
1990	160,225,587	524,372,216	13.60	769,399,368	1,453,997,171
1991	172,724,019	578,285,349	13.86	798,301,731	1,549,311,099

## EXPENSES BY TYPE

Plan Fiscal Year	Benefits		Withdrawals & Adm.	Transfers to Other Ret. Systems	Total
	Retirement	Other*			
1982	\$152,207,949		\$11,819,619	\$ 730,413	\$164,757,981
1983	162,925,554		9,440,484	81,261	172,447,299
1984	178,051,923	\$ 8,525,832	10,376,442	82,792	197,036,989
1985	196,536,957	12,850,904	10,710,202	44,005	220,142,068
1986	215,594,634	95,742,508	10,345,403	56,592	321,739,137
1987	238,359,609	96,745,440	10,539,838	658,505	346,303,392
1988	265,731,642	128,723,615	8,523,828	686,187	403,665,272
1989	291,686,199	139,799,116	11,098,406	1,550,441	444,134,162
1990	321,810,038	141,702,261	19,428,850	2,065,428	485,006,577
1991	358,246,434	117,246,876	20,818,216	2,787,264	499,098,790

Contributions were made in accordance with actuarially determined contribution requirements.

*\*Other benefits include cost-of-living adjustments and medical benefits for certain eligible retirees beginning in 1986 and 1988, respectively.*

## Notes

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Division of Pensions  
Teachers' Pension and Annuity Fund  
State of New Jersey  
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