

PUBLIC EMPLOYEES'  
RETIREMENT SYSTEM  
OF  
NEW JERSEY



1990  
*Annual Report*

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**STATE OF NEW JERSEY**  
**DEPARTMENT OF THE TREASURY**  
Douglas C. Berman, *Treasurer*

**DIVISION OF PENSIONS**  
Margaret M. McMahon, *Director*

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
OF NEW JERSEY**

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**NEW JERSEY DIVISION OF PENSIONS**  
50 West State Street  
Trenton, New Jersey



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

Dear Sir:

The board of trustees of the Public Employees' Retirement System is pleased to present the Thirty-Sixth Annual Report in compliance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

**NORMA J. SAWYER,**  
Chairperson

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## SIGNIFICANT LEGISLATION

**CHAPTER 320, LAWS OF 1989** gives persons who are retired from public retirement systems of this or any other state and are elected to public office in the state the option of enrolling in the retirement system covering the elected office. To do so, the elected official must stop receiving his or her pension or retirement allowance and death benefits under the former system. This law was approved on January 12, 1990 with a retroactive effective date of January 1, 1987.

**CHAPTER 328, LAWS OF 1989** permits the voluntary withholding of New Jersey Gross Income tax from the pensions paid by private and public pension plans. The minimum amount to be withheld is \$10.00 per month. This law was approved on January 12, 1990 to become effective on May 1, 1990.

**CHAPTER 261, LAWS OF 1989** made many public and private employees in New Jersey eligible for a family leave from their employment without loss of employment status and with continuation of certain employment benefits. Administration and enforcement of the act is vested in the Division of Civil Rights in the Department of Law and Public Safety. The basic benefit provided by the Family Leave Act is that a covered employee is entitled to a family leave of 12 weeks in any 24-month period upon advance notice to the employer unless the employer denies the leave as authorized by law. Family leave is defined as a leave from employment to provide care made necessary by reason of birth or adoption of a child or the serious illness of a child, parent or spouse. This law was effective May 4, 1990.

**CHAPTER 287, LAWS OF 1989** permits PERS members employed by county hospitals within counties of the first class to purchase credit in the system for temporary service without interruption that resulted in permanent appointment. The employer will not be liable for any portion of the purchase cost. The member may make a lump sum payment for such purchase or make regular monthly payroll payments. If the member retires without paying the full purchase price, he or she may receive pro rata credit based upon the purchase price paid.

According to the Department of Health, there are three county hospitals in the counties of the first class (i.e. Bergen, Essex and Hudson counties). These hospitals are Bergen Pines Hospital, Essex County Hospital and Hudson County Meadowview Hospital. This law was approved and became effective on January 12, 1990.

## MEMBERSHIP STANDARD RETIREMENT PAYROLL

The following information concerns the active and retired participation in the PERS from its inception in 1955 to the present. Beginning with the 1989 Annual Report, total active and retired membership is reported using the latest actuarial valuation for purposes of consistency with the Audited Financial Statements also contained herein.

PERIOD ENDING	ACTIVE MEMBERS	RETIREES & BENEFICIARIES	TOTAL
June 30, 1955	34,087	2,649	36,736
June 30, 1960	50,576	7,116	57,692
June 30, 1965	69,086	10,445	78,531
June 30, 1970	113,866	13,298	127,164
June 30, 1975	171,518	21,682	193,200
June 30, 1980	205,038	35,185	240,223
June 30, 1985	236,060	50,939	286,999
March 31, 1988	247,503	61,537	309,040
March 31, 1989	254,205	64,076	318,281

## STANDARD RETIREMENT PAYROLL June 30, 1990

Regular Allowance (65,616 retirees & beneficiaries)	\$24,774,534
Pension Adjustment Act	5,356,947
Part B Medicare Reimbursement Premiums	184,642
<b>Gross Payroll, month of June 1990</b>	<u><u>\$30,316,123</u></u>

The following represents comparative data on the standard retirement payroll and average allowances for selected June 30 periods.

JUNE 30	NUMBER	PAYROLL (inc. Pension Adjustment Act)
1955	2,649	\$ 2,848,923
1960	7,116	8,876,808
1965	10,445	16,737,419
1970	13,298	24,036,226
1975	21,682	53,518,488
1980	35,185	144,408,900
1985	50,939	213,581,142
1989	63,022	327,634,351
1990	65,616	349,983,059

## GROUP LIFE INSURANCE CLAIMS (Cash Basis)

### Active Members

Number Settlement	Amount	
766 Cash Lump Sum Reserve	\$48,762,727	
6 Monthly Annuities	503,351	
<u>772 Total Active Member Death Claims</u>		\$49,266,078

### Retired Members

Number Settlement	Amount	
1,844 Regular Retirees (death after age 60)—Lump Sum	\$5,708,358	
21 Disability Retirees (death before age 60)—Lump Sum	<u>629,464</u>	
<u>1,865 Total Death Claims—Retirees</u>		\$ 6,337,822
2,637 Total Claims—Active and Retired Members		<u><u>\$55,603,900</u></u>

## SUMMARY OF CLAIM CHARGES (Cash Basis)

### Noncontributory Plan

Active Members	772	\$25,233,795	
Retirees	<u>1,865</u>	<u>6,337,822</u>	
	2,637	\$31,571,617	

### Contributory Plan

Active Members	<u>739</u>	<u>\$24,032,284</u>	<u>\$55,603,900</u>
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### Return of Contributions

a) 20,575 members withdrew from the system and received a return of the pension contributions totaling	\$35,251,435
b) The survivors of 930 members who died before retirement received a return of the members' contributions totaling	8,909,702
c) Settlement of inactive accounts	<u>1,943,875</u>
	\$46,105,012

### Loans

60,281 members applied for and received loans on their accounts totaling	\$106,732,920
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**REVISED VALUATION BALANCE SHEET  
SHOWING THE ASSETS AND LIABILITIES  
OF THE FUNDS OF THE PERS**

*as of March 31, 1989*

**LIABILITIES**

Present value of benefits payable on account of beneficiaries or  
their dependents now drawing allowances  
from the Retirement Reserve Fund

\$ 3,252,725,955

Present value of benefits payable from  
contributions to the Annuity Savings Fund and  
the Contingent Reserve Fund:

Service retirement allowances including  
early retirement and vesting benefits

Ordinary disability retirement allowances \$8,331,084,527

Accidental disability retirement allowances 328,812,009

Ordinary death benefits 33,289,081

Accidental death benefits 873,209,335

Return of members' contributions upon  
withdrawal before retirement 6,883,020

Cost-of-living adjustments 677,878,545

2,017,052,396 12,268,208,913

Present value of medical premiums payable  
from 401(h) contributions to the Post  
Retirement Medical Fund for State  
Employees

1,835,153,298

Offsetting liability equal to other Non-  
System funds

32,603,880

**TOTAL LIABILITIES**

\$17,388,692,046

## CONTRIBUTORY INSURANCE

The board of trustees is authorized to purchase a group life insurance policy to provide for the benefits which are to be met by contributions by members. The statute requires the board to establish rates of contributions for the purpose of maintaining the Contributory Group Insurance Premium Fund at a level to meet the obligations of the fund for the cost of insurance.

In the administration of the program, certain amounts derived from employee contributions have been left on deposit with the carrier for specific reasons. A brief description of each deposit account is noted below:

1. **Dividend Accumulation:** This is an account established by the board of trustees, as policyholder, into which dividends arising from the active life experience are deposited. Such funds could be used to forestall rate increases and used to reduce rates.
2. **Advance Premiums:** Returned premiums are deposited in this account when the Special Reserve contains funds in excess of its contractual limit. Such money could be used to delimit rate increases or reduce rates.
3. **Special Reserve:** This money is used to stabilize experience.

The Special Reserve earned interest at the rate of 7.5% per annum during the policy year.

### FUNDS ON DEPOSIT

	<b>Balance</b> <b>6/30/90</b>	<b>Balance</b> <b>6/30/89</b>
Dividend Accumulation	\$ 0	\$ 0
Advance Premium	\$ 0	\$ 0
Special Reserve	\$537,975	\$500,442

## UNCLAIMED ACCOUNTS

Unclaimed Accounts, June 30, 1989		\$3,898,556
Memberships discontinued and not settled during 1989-90		\$1,387,001
Memberships discontinued and settled in 1989-90	<u>192,150</u>	
Added in fiscal year 1989-90		<u>1,579,151</u>
		5,477,707
<b>LESS:</b>		
Cash settlements during fiscal year	\$304,530	
Cash escheat to State Treasurer	7,074	
Transferred to new accounts	<u>15,695</u>	327,299
<b>BALANCE, JUNE 30, 1990</b>		<b><u><u>\$5,150,408</u></u></b>

List of the new additions during 1989-90 have been sent to all employing units with a request that they circulate copies among their members in an effort to ascertain the whereabouts of the listed former members and advise the Division of Pensions.

## RETIREMENTS BY TYPE AND OPTION

July 1, 1989-June 30, 1990

Service	3,647	Maximum	2,574
Early	237	Option 1	1,068
Deferred	232	Option 2	754
Ordinary Disability	202	Option 3	401
Accidental Disability	22	Option 4	<u>24</u>
Veteran	474		
Accidental Death	7	<b>TOTAL</b>	<b>4,821</b>
Canceled	<u>(49)</u>		
<b>TOTAL</b>	<b>4,821</b>		

**REVISED VALUATION BALANCE SHEET  
SHOWING THE ASSETS AND LIABILITIES  
OF THE FUNDS OF THE PERS**

*as of March 31, 1989*

**ASSETS**

**PRESENT ASSETS OF SYSTEM CREDITABLE TO:**

**Retirement Reserve Fund:**

Credited to fund	\$2,260,100,309	
Add accrued interest creditable	107,174,435	
Add reserve transferable from Contingent Reserve Fund	885,451,211	\$ 3,252,725,955

**Annuity Savings Fund:**

Credited to fund	\$1,665,198,841	
Add accrued interest creditable	74,969,830	1,740,168,671

**Contingent Reserve Fund:**

Credited to fund*	\$2,717,166,242	
Add accrued interest creditable	131,801,788	
Add excess interest earnings transferable from Special Reserve Fund	43,243,076	
Deduct reserve transferable to Retirement Reserve Fund	(885,451,211)	2,006,759,895

**Special Reserve Fund:**

Credited to fund	\$ 62,870,375	
Add excess interest earnings creditable	47,702,806	
Deduct excess interest earnings transferable to Contingent Reserve Fund	(43,243,076)	67,330,105

**Other Non-System Funds:**

Pension Adjustment Fund	\$ 0	
Contributory Group Insurance Premium Fund	32,603,880	32,603,880

**TOTAL PRESENT ASSETS**

\$ 7,099,588,506

Present value of prospective contributions of members to be made to Annuity Savings Fund	\$ 1,950,409,849
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Present value of prospective contributions payable by the State and local employers to the Contingent Reserve Fund as follows:

Normal Contributions

Basic allowances with cost-of-living adjustments	\$5,044,878,698	
Accrued liability contributions		
Basic allowances with cost-of-living adjustments	1,458,661,695	6,503,540,393

Present value of prospective 401(h) contributions to the Post Retirement Medical Fund for State Employees

Normal Contributions	\$1,677,809,350
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Accrued liability contributions	<u>157,343,948</u>	<u>1,835,153,298</u>
<b>TOTAL PROSPECTIVE ASSETS</b>		<u>\$10,289,103,540</u>
<b>TOTAL ASSETS</b>		<u>\$17,388,692,046</u>

*\*Reflects adjustment for contribution overpayment of \$21,618,521 and payment of \$87,034,868 due to general fund for COLA only. No adjustment has been made for Post Retirement Medical Premiums.*

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
State of New Jersey  
Public Employees' Retirement System

We have audited the accompanying component unit financial statements of the State of New Jersey Public Employees' Retirement System (System) as of and for the years ended June 30, 1990 and 1989. These financial statements are the responsibility of the System'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 combined 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 Public Employees' Retirement System at June 30, 1990 and 1989, 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 balance sheets as of June 30, 1988, 1987 and 1986 and the related statements of revenues, expenses and changes in fund balances and changes in the financial position for each of the three years in the period ended June 30, 1988 (none of which are presented herein); and we expressed unqualified opinion on those component unit financial statements.

In our opinion, the information set forth in the required supplementary information for each of the three years in the period ended June 30, 1990 is fairly stated, in all material respects, in relation to the component unit financial statements from which it has been derived. With respect to such information for each of the five years in the period ended June 30, 1985, we have applied certain limited procedures which consisted of measurement and presentation of the supplementary information. However, we did not audit the information for each of the five years in the period ended June 30, 1985 and express no opinion on it.

*Ernst & Young*  
*October 15, 1990*

**BALANCE SHEETS**

State of New Jersey

Public Employees' Retirement System

	<b>JUNE 30</b>	
	<u>1990</u>	<u>1989</u>
<b>ASSETS</b>		
Investments, at cost:		
Bonds (market value of \$89,941,902 in 1990 and \$92,419,929 in 1989)	\$ 92,904,736	\$ 98,420,185
Common Pension Fund A (market value of \$4,605,864,603 in 1990 and \$3,754,582,490 in 1989)	3,084,587,484	2,724,739,949
Common Pension Fund B (market value of \$3,043,913,387 in 1990 and \$2,836,299,462 in 1989)	2,987,834,749	2,716,692,480
Cash Management Fund (market value of \$276,170,512 in 1990 and \$405,006,010 in 1989)	276,170,512	405,006,010
Mortgages (market value of \$1,300,124,572 in 1990 and \$1,131,764,829 in 1989)	<u>1,293,310,556</u>	<u>1,115,352,362</u>
<b>TOTAL INVESTMENTS</b>	7,734,808,037	7,060,210,986
Receivables:		
Contributions:		
Members	48,085,942	44,651,258
Employers	153,886,287	148,623,425
Investments:		
Accrued interest	86,074,802	77,160,043
Dividends	33,635,328	27,459,865
Members' loans	140,036,437	122,421,235
Due from Pension Adjustment Fund		4,835,430
Other	<u>10,457,276</u>	<u>13,567,096</u>
<b>TOTAL RECEIVABLES</b>	472,176,072	438,718,352
Cash	<u>15,295,480</u>	<u>9,931,270</u>
<b>TOTAL ASSETS</b>	<u><u>\$8,222,279,589</u></u>	<u><u>\$7,508,860,608</u></u>

See notes to financial statements.

**BALANCE SHEETS**

State of New Jersey

Public Employees' Retirement System

	<b>JUNE 30</b>	
	<b>1990</b>	<b>1989</b>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Retirement benefits payable	\$ 30,811,729	\$ 27,914,671
Death benefits payable	2,684,438	3,610,430
Payable for investments purchased	34,420,053	29,538,923
Accounts payable and accrued expenses	22,753,668	18,327,047
<b>TOTAL LIABILITIES</b>	<u>90,669,888</u>	<u>79,391,071</u>
Fund Balances:		
Members' annuity savings fund and accumulative interest	2,002,089,834	1,792,399,838
Contingent reserve fund	2,582,716,842	3,119,711,779
Retirement reserve fund	3,430,747,271	2,414,732,449
Special reserve fund	76,960,824	70,275,522
Contributory group insurance premium reserve fund	39,094,930	32,349,949
Other fund	0	0
<b>TOTAL FUND BALANCES</b>	<u>8,131,609,701</u>	<u>7,429,469,537</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u><u>\$8,222,279,589</u></u>	<u><u>\$7,508,860,608</u></u>

See notes to financial statements.

**STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND BALANCES**

**State of New Jersey Public Employees' Retirement System**

**FUND BALANCES**

	Members' ASF & Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund
<b>REVENUES</b>			
Contributions:			
Members	\$ 234,318,478		
Employers		\$ 390,190,104	
Investment revenue	103,757,982	337,321,780	\$ 214,511,938
Pension Adjustment Fund			
Other			
<b>TOTAL REVENUES</b>	338,076,460	727,511,884	214,511,938
<b>EXPENSES</b>			
Benefit payments			297,251,308
Cost-of-living adjustment			61,375,179
Pension Adjustment Fund refund			68,780,180
Withdrawals	36,943,730		
Noncontributory group insurance death benefits		33,534,709	
Transfers to other funds	9,161,280	8,430,657	
Administrative expense		17,422,180	
Health benefits premiums and other	8,597	58,482,581	
<b>TOTAL EXPENSES</b>	46,113,607	117,870,127	427,406,667
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	291,962,853	609,641,757 (	212,894,729)
Transfers between funds for:			
Retirements by members	( 83,134,350)	( 261,572,012)	334,706,362
Other	861,493	( 885,064,682)	884,203,189
Fund balances at beginning of year	1,792,399,838	3,119,711,779	2,414,732,449
<b>FUND BALANCES AT END OF YEAR</b>	\$2,002,089,834	\$2,582,716,842	\$3,430,747,271

**STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND BALANCES**

**State of New Jersey Public Employees' Retirement System**

<b>FUND BALANCES</b>			<b>TOTALS</b>	
Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund	Year Ended June 30	
			1990	1989
	\$27,800,201		\$ 262,118,679	\$ 238,585,336
			390,190,104	351,766,381
\$ 6,685,302	4,646,581		666,923,583	624,200,759
				55,418,466
		\$78,944	78,944	89,774
<u>6,685,302</u>	<u>32,446,782</u>	<u>\$78,944</u>	<u>1,319,311,310</u>	<u>1,270,060,716</u>
			297,251,308	272,126,110
			61,375,179	55,418,466
			68,780,180	55,418,466
			36,943,730	39,603,373
			33,534,709	35,684,551
			17,591,937	8,968,462
			17,422,180	
	<u>25,701,801</u>	<u>78,944</u>	<u>84,271,923</u>	<u>30,436,612</u>
	<u>25,701,801</u>	<u>78,944</u>	<u>617,171,146</u>	<u>442,237,574</u>
6,685,302	6,744,981	0	702,140,164	827,823,142
			0	0
			0	0
<u>70,275,522</u>	<u>32,349,949</u>	<u>0</u>	<u>7,429,469,537</u>	<u>6,601,646,395</u>
<u>\$76,960,824</u>	<u>\$39,094,930</u>	<u>0</u>	<u>\$8,131,609,701</u>	<u>\$7,429,469,537</u>

See notes to financial statements.

**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

**State of New Jersey**

**Public Employees' Retirement System**

	<b>JUNE 30</b>	
	<b>1990</b>	<b>1989</b>
<b>SOURCES OF FINANCIAL RESOURCES</b>		
Excess of revenues over expenses	\$ 702,140,164	\$827,823,142
Items not requiring (providing) financial resources:		
Accretion and amortization—net	( 3,518,253)	( 3,727,949)
Net (gain) loss on sales and maturities of long-term investments	( 5,867,207)	1,093,575
Net realized gain on Common Pension funds A and B	<u>( 96,244,820)</u>	<u>( 132,242,882)</u>
	596,509,884	692,945,882
Proceeds from sales and maturities of long-term investments	287,550,445	293,137,700
Decrease in Cash Management Fund	128,835,498	
Increase in retirement benefits payable	2,897,058	2,783,846
Increase (decrease) in payable for investments purchased	4,881,130	( 3,652,110)
Increase (decrease) in accounts payable and accrued expenses	4,426,621	( 1,426,938)
Decrease in other receivables	<u>7,945,250</u>	
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b>	1,033,045,886	983,788,384
<b>USES OF FINANCIAL RESOURCES</b>		
Purchases of long-term investments	985,352,714	712,807,541
Increase in Cash Management Fund		184,987,983
Increase in contributions receivable	8,697,546	49,737,435
Increase in accrued investment income	15,090,222	9,365,155
Decrease (increase) in death benefits payable	925,992	( 696,077)
Increase in other receivables		8,657,406
Increase in member loans	<u>17,615,202</u>	<u>16,235,072</u>
<b>TOTAL USES OF FINANCIAL RESOURCES</b>	<u>1,027,681,676</u>	<u>981,094,515</u>
<b>NET INCREASE IN CASH</b>	6,364,210	2,693,869
Cash, beginning of year	<u>9,931,270</u>	<u>7,237,401</u>
<b>CASH, END OF YEAR</b>	<u>\$ 15,295,480</u>	<u>\$ 9,931,270</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### State of New Jersey

### Public Employees' Retirement System

June 30, 1990

#### NOTE A—Significant Accounting Policies

The financial statements of the Public Employees' Retirement System (System) 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 Government 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 represent commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants. These investments are valued at cost plus undistributed realized net gains of \$103,802,998; consisting of \$92,105,184 in Common Pension Fund A and \$11,697,814 in Common Pension Fund B at June 30, 1990.

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 amortization of premiums or accretion of discounts over the life of the loans.

Purchases and sales of investments are accounted for 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 sale occurs. Interest and dividend income on investments are recognized when earned.

Administrative Expenses: The System 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 System and included in the normal cost of future employer contributions. Such costs for the year ended June 30, 1990 amounted to \$17,422,180. Prior to July 1, 1990, the System's assets available for paying benefits were not reduced for administrative expenses as all such expenses were allocated to the various State and State-related (local governmental agencies) employers who were responsible for such cost.

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**NOTE B—Description of the System**

Organization: The System is a cost-sharing multi-employer contributory defined benefit plan which was established in January 1955 under the provisions of NJSA 43:15A. The System 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 statement of the State.

The System's designated purpose is to provide retirement benefits, medical benefits for qualified retirees (which are subordinate to the retirement benefits) and other benefits to its members. Membership in the System is mandatory for substantially all full-time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction. The System's Board of Trustees which is responsible for its organization and administration.

Cumulative membership in the System as of March 31, 1989, 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	<u>64,076</u>
Active members:	
Vested	88,117
Non-Vested	166,088
TOTAL ACTIVE MEMBERS	<u>254,205</u>

Loans Receivable: The System provides for member loans up to 50% of each member's accumulated contributions. To obtain a loan, a member must have three years of contributions made 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 benefits provisions are set by NJSA 43:15A and 43:3B. The System provides retirement as well as disability benefits. All benefits vest after 10 years of creditable service. Retirement benefits for age and service are available beginning at age 60 and are generally determined as a percentage of final average salary. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' salary 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 achieving 10 years of service in which case benefits would begin on the first day of the month after the member attains the normal retirement age.

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Members are always fully vested for their own contributions and after three 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 to the members' accounts.

Eligible retirees 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 31 immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% 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.

Legislation enacted during the current year required cost-of-living adjustments as well as post-retirement medical premiums to be determined actuarially, retroactive to March 31, 1988 and requires the resulting liability to be funded within 30 years. Previously, the cost-of-living increases and post-retirement medical premiums were paid from the State of New Jersey Pension Adjustment Fund and the Health Benefit Program Fund, respectively, which were previously funded by the State and State-related employers on a pay-as-you-go basis. As a result of the legislation, the total benefit obligation as of March 31, 1988 was revalued and increased \$2,801,965,000 to \$9,782,660,000 compared to \$6,980,695,000 disclosed in the previous year.

In accordance with the legislation, the State Treasurer mandated that the System begin payment of these benefits as of March 31, 1990 and assume the obligation for such benefits retroactive to April 1, 1988. As a result, the System reimbursed both the State (General Fund) and State-related employers for these benefits for the period April 1, 1988 to February 28, 1990 in the amount of \$76,451,725 and \$82,498,075, respectively, which included interest at 7%.

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

Information about the System, including additional vesting and benefit provisions, is available from the New Jersey Division of Pensions.

## **NOTE C—Pension Benefit Obligation**

The following "pension benefit obligation" is the actuarial present value of credited projected benefits. It is a standardized disclosure measure representing the present value of pension 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 System discussed in Note D.

The pension benefit obligation was determined as part of each plan's most

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recent actuarial valuation dated March 31, 1989. The liability was determined as of March 31 and projected to June 30, 1989 allowing for increases in benefits and variations in the population during the 3-month period.

The projected pension benefit obligation as of June 30, 1989 was:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits \$ 3,283,114,000

Current employees:

Accumulated employee contributions with interest 1,792,400,000  
Employer financed—vested 4,660,651,000  
Employer financed—non-vested 512,124,000  
Total pension benefit obligation 10,248,289,000

Net assets available for benefits (fund balance) at book value (market value of \$8,671,095,257) 7,319,402,000

Unfunded pension benefit obligation \$ 2,928,887,000

*In addition, based on current legislation described in Note B, the actuarially determined unfunded obligation for post-retirement medical premiums was \$1,133,126,140 as of June 30, 1989.*

The above obligation was calculated based on actuarial assumptions of

- a) a 7 3/4% discount rate compounded annually;
- b) salary increases ranging from 6.75% at age 25 to 3.61% at age 69 which include inflation, merit and productivity;
- c) assets valued at cost or amortized cost;
- d) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary;
- e) 1 1/2% increase in cost-of-living benefit provisions; and
- f) medical premiums increases of 10% for the next eight years and 7.00% thereafter.

There were no changes in actuarial assumptions compared to the March 31, 1988 revalued pension benefit obligation (see Note B).

## **NOTE D—Contribution Policy**

The contribution policy is set by NJSA 43:15A and requires contributions by active members, employers, and the State. Member contribution rates range from 4.96% to 9.91% of salary based on the members' age at date of enrollment which is reduced by 2% for salary subject to social security. Once a member is assigned a rate, it is not normally changed.

In accordance with the provisions of NJSA 43:15A, the contribution

policy requires State-related employers and the State to make a normal contribution and an accrued liability contribution determined by a qualified actuary. The actuary used the “Entry Age Normal Frozen Initial Liability” to determine the method of funding. The normal contribution includes an amount that is required to fund non-contributory death benefits. The State appropriation for the year ended June 30, 1990, is based on the 1988 actuarial valuation and the State-related employer contributions are accrued on June 30, 1990, based on the most recent 1989 actuarial valuation.

Beginning in the 1990 plan year, the State and State-related employers are required to make contributions for qualified retirees towards the payment of cost-of-living adjustments and cost of medical premiums after retirement (see Note B). In connection with this change, the System’s actuarial accrued liability was revalued as of March 31, 1988 by resetting the normal contribution at the entry age level. The unfunded frozen actuarial accrued liability for basic allowances is \$410,739,395 as of March 31, 1989 and is being funded over 30 years with increasing payments related to compensation. Additional accrued liabilities were determined for cost-of-living adjustments and the post-retirement medical premiums for qualified retirees in the amounts of \$3,028,785,993 and \$1,810,267,243, respectively, as of March 31, 1989. These accrued liabilities will be funded over a 30-year period commencing on March 31, 1989 from employee contributions and State and State-related employer contributions.

As part of the revaluation, the annual interest assumption was increased from 6 1/2% to 7% commencing with the March 31, 1988 valuation at the direction of the State Treasurer. As a result of the revaluation, the 1988 actuarially determined contribution by the State and State-related employers decreased \$21,618,521.

Total pension contributions for the year ended June 30, 1990 were \$624,508,582 (\$390,190,104 from employers and \$234,318,478 from members, or 7.2% and 4.3%, respectively, of annual covered compensation) including \$299,443,710 representing the recommended normal contribution amount and \$85,111,726 relating to the accrued liability funding.

Significant assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of pension benefit obligation discussed in Note C above with the exception of the discount rate, the rate of return on investment and salary increases, which were each 3/4 of 1% lower for contribution requirements.

The contributing employers as of March 31, 1989 were comprised of the following:

State	1
County agencies	82
Municipalities	525
School districts	607
Other public agencies	439
TOTAL	<u>1,654</u>

Members' Annuity Savings Fund and Accumulative Interest: The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer which was 6 1/2% for the years ended June 30, 1990 and 1989. 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, if applicable, are transferred to the Retirement Reserve Fund for subsequent payment of benefits.

Upon death or withdrawal from active service prior to qualifying for retirement, accumulated contributions plus applicable interest are paid from the Members' Annuity Savings Fund (ASF).

Contingent Reserve Fund: The Contingent Reserve Fund is credited with the contributions of the State and local governmental employers. Additionally, realized investment earnings, after crediting the ASF and the Retirement Reserve Fund, 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.

Each year, the amounts necessary, as determined by actuaries, 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 6, PL 1990 provides 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 and health care benefit adjustments for certain retirees are paid. Upon retirement of a member, accumulated contributions together with accumulated interest are transferred to the Retirement Reserve Fund from the ASF and a reserve needed to fund the retirement benefit is transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (6 1/2% for 1990 and 1989), 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 actuary.

During 1990, a transfer amounting to approximately \$885,000,000 was made from the Contingent Reserve Fund to the Retirement Reserve Fund

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Special Reserve Fund: The Special Reserve Fund is the fund to which any excess interest earnings and gains from sale and maturity of investments are transferred and against which any losses from the sale of securities are charged. This fund is limited to 1% of the book value of the investments allocated to the System, excluding cash management fund investments allocated to the Contributory Group Insurance Premium Fund which amounted to \$38,725,671 at June 30, 1990. 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 contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefits plus reserves held by the insurance carrier.

Members are required by statute to participate in the Contributory Group Insurance Premium Fund in their first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for this coverage is .55 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 System through the State Treasurer and custodian banks as agents for the System. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, 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 System at June 30, 1990. Category 1 includes investments that are insured or registered or for which the securities are held by the System or their agency in the System's name. Category 2 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 System's names. 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 System's name. As of June 30, 1990, all investments held by the System are classified as Category 1.

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Federal securities, including federal securities held as collateral on repurchase agreements, are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the System. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodial banks in trust for the System. The custodian banks, as agents for the System, maintain internal accounting records identifying the securities owned by the System.

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

A summary of investments as of June 30, 1990 and the market value by major class were as follows:

	Book Value in 000s	Market Value in 000s
Bonds:		
U.S. and Municipal Government bonds	\$ 5,781	\$ 5,920
Industrial bonds	688	650
Telephone bonds	8,684	7,790
Gas, electric, and water bonds	37,502	35,429
Finance companies—senior debt	500	478
Railroad equipment obligations	734	714
Other	39,016	38,961
<b>SUBTOTAL</b>	<u>92,905</u>	<u>89,942</u>
Common Pension Fund A	3,084,587	4,605,865
Common Pension Fund B	2,987,835	3,043,913
State of New Jersey Cash Management Fund	276,170	276,170
Mortgages	1,293,311	1,300,125
	<u>7,641,903</u>	<u>1,300,125</u>
<b>TOTAL</b>	<u><u>\$7,734,808</u></u>	<u><u>\$9,316,015</u></u>

Investments in excess of 5% of net assets are:

	June 30, 1990 in 000s	June 30, 1989 in 000s
Common Pension Fund A	\$3,084,587	\$2,724,740
Common Pension Fund B	2,987,835	2,716,692
State of New Jersey Cash Management Fund		405,006

## **NOTE G—Income Tax Status**

Based on a declaration of the Attorney General of the State of New Jersey, the retirement systems are qualified plans 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 Systems' progress made in accumulating sufficient assets to pay benefits when due is presented as "Required Supplementary Information."

## **NOTE I—Subsequent Event**

At June 30, 1990, the System had approximately \$1,521,278,000 of net unrealized appreciation (market value in excess of carrying value) in Common Pension Fund A. Subsequent to June 30, 1990, the stock market experienced significant volatility and decline in value.

As of October 15, 1990, the net unrealized appreciation in Common Pension Fund A at June 30, 1990 decreased \$797,306,000 to \$723,972,000. The effect on the market value of the remaining securities held at June 30, 1990 was immaterial.

Retirement benefits payable to the Plan participating 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.

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS**  
(in millions)

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

Pension Benefit Obligations

Plan Fiscal Year	(1) Net Assets Available for Benefits	(2) Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded	(5) Annual Covered Payroll	(6) Unfunded Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
				Benefit Obligation (2)–(1)		
1986	\$4,264.0	\$ 4,180.2	102.0%	\$ (83.8)	\$3,670.1	0%
1987	5,000.7	5,379.2	93.0	378.5	4,097.9	9.2
1988	5,823.5	6,094.0	95.6	270.5	4,485.0	6.0
1989	6,601.7	9,075.4	72.7	2,473.7	4,936.1	50.1
1990	7,319.4	10,248.3	71.4	2,928.9	5,436.4	53.9

Post-Retirement Medical Premiums Obligation

Plan Fiscal Year	Net Assets Available for Benefits	Benefit Obligation	Percentage Funded	Unfunded Benefit Obligation
1989	0	\$ 707.2	0	\$ 707.2
1990	0	1,133.1	0	1,133.1

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 System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the System. Trends in unfunded benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Information for the five years prior to the year ended June 30, 1985 is unavailable.

Note—Beginning in 1989, the pension benefit obligation reflects the impact of funding cost-of-living adjustments and, accordingly, amounts related to fiscal 1989 have been revalued. Also in 1989, the System began funding the post-retirement medical premiums. (See Note B to the financial statements.)

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**REVENUES BY SOURCE AND EXPENSES BY TYPE**

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

**REVENUES BY SOURCE**

Plan Fiscal Year	Member Contributions	Employer Contributions	
		State	% of Annual Covered Compensation
1981	\$100,533,913	\$ 64,109,079	2.76%
1982	120,462,618	68,199,660	2.64
1983	125,466,588	93,017,310	3.20
1984	133,854,283	105,579,827	3.34
1985	143,378,929	111,522,902	3.33
1986	163,182,225	111,995,151	3.05
1987	182,131,022	124,204,570	3.03
1988	199,595,206	137,200,192	3.06
1989	213,157,484	145,538,020	3.19
1990	234,318,479	166,203,287	3.06

**EXPENSES BY TYPE**

Plan Fiscal Year	Benefits		Withdrawals & Adm.	Transfers to Other Ret. Systems	Total
	Retirement	Other*			
1981	\$106,848,520		\$19,666,224	\$ 2,412,408	\$128,927,152
1982	121,239,874		21,353,016	2,956,873	145,549,763
1983	136,718,406		18,390,739	3,322,167	158,431,312
1984	156,136,932	\$ 22,608,231	21,266,155	6,774,381	206,785,699
1985	176,393,956	26,162,303	25,384,001	6,134,326	234,074,586
1986	196,568,346	78,946,313	27,761,760	4,140,456	307,416,875
1987	216,983,863	78,348,897	29,761,617	34,325,293	359,419,670
1988	242,959,969	86,179,691	33,116,926	16,528,404	378,784,990
1989	272,126,110	90,684,551	39,603,373	8,968,462	411,382,496
1990	297,251,308	153,392,469	54,365,910	17,591,937	522,601,624

Contributions were made in accordance with actuarially determined requirements.

\*Other benefits include cost-of-living adjustment and medical benefits for certain eligible retirees beginning in fiscal 1986 and 1990, respectively. See notes to financial statements.

**REVENUES BY SOURCE**

**Employer Contributions**

<b>Local</b>	<b>% of Annual Covered Compensation</b>	<b>Investment Revenue</b>	<b>Total</b>
\$ 93,505,399	4.03%	\$174,310,046	\$ 432,458,437
115,314,112	4.47	222,273,185	526,249,575
130,450,397	4.49	242,440,484	591,374,779
142,728,211	4.51	291,481,165	673,643,486
164,907,459	4.92	336,205,621	756,014,911
165,297,236	4.50	411,972,803	852,447,415
172,276,217	4.20	619,045,600	1,097,657,409
171,467,943	3.82	599,733,718	1,107,997,059
206,228,817	4.52	619,950,092	1,184,873,958
223,986,817	4.10	662,277,002	1,286,785,584

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