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**TEACHERS' PENSION
AND ANNUITY FUND
OF
NEW JERSEY**



1992

ANNUAL REPORT

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STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY

Samuel Crane, Treasurer

DIVISION OF PENSIONS AND BENEFITS

Margaret M. McMahon, Director

**TEACHERS' PENSION AND ANNUITY FUND
OF NEW JERSEY**

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NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

50 West State Street Trenton, New Jersey 08625-0295

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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 1992 Annual Report in compliance with the provisions of N.J.S.A. 18A:66-59.

Respectfully Submitted,

HARRY BALDWIN
Chairperson

SIGNIFICANT LEGISLATION

CHAPTER 153, LAWS OF 1991, permits PERS, TPAF and PFRS members to purchase service credit for certain civilian employment or military service with the United States government or other states. The civilian service must be the type of public employment that would be eligible for credit in the New Jersey State-administered retirement systems 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.

CHAPTER 229, LAWS OF 1991 provides certain early retirement incentive benefits to county, municipal and county college employees who are members of the ABP, PERS or TPAF. The basic requirement is 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 credit within the retirement system. Under Chapter 229, the member must file a retirement application on or before March 1, 1992 with an effective date of retirement between December 1, 1991 and April 1, 1992. Eligible employers may adopt these early retirement incentives by resolution but are not required to do so.

PERS and TPAF members who are at least 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 PERS and TPAF will receive an additional pension in the amount of 5/60ths of their final year's salary. Eligible ABP retirees will receive an amount equal to 100% of their base salary at the time of their retirement. The incentive for eligible retirees age 60 or more with at least 20 years of service credit is employer-paid health coverage into retirement under the conditions currently offered to retirees of that entity. This law was approved and became effective on July 26, 1991.

CHAPTER 231, LAWS OF 1991 provides early retirement incentive benefits comparable to those provided to State, county, municipal, county college and various authorities, boards, commissions, etc., by Chapters 137, 229 and 230 respectively, available to certain PERS and TPAF members who are employed by school boards, educational services commissions and jointure commissions. Applications for retirement must be filed on or before March 1, 1992 with an effective date of retirement between December 1, 1991 and April 1, 1992. Eligible employers may adopt these early retirement incentives by resolution but are not required to do so. This law was approved and became

effective on July 26, 1991.

CHAPTER 246, LAWS OF 1991 provides that the funding of the contingent reserve fund for TPAF members who are employees of institutions of higher education shall be the obligation of the State rather than the particular institution of higher education. This law was approved and became effective August 7, 1991.

CHAPTER 382, LAWS OF 1991 establishes a Pension and Health Benefit Study Commission. This commission will consist of 10 members (State Treasurer plus three members of the Executive branch, two members appointed by the Senate President, two members appointed by the Speaker of the Assembly and two members appointed by the Governor). The chairman of the commission will be appointed by the Governor and serve at his pleasure. This act will take effect on January 14, 1992.

CHAPTER 389, LAWS OF 1991 revised the definition for veteran with the Board of Education Employees' Retirement Fund of Essex County, TPAF, PERS and PFRS to include any honorably discharged members of the American Merchant Marine who served during World War II and is declared by the US Department of Defense to be eligible under federal veterans' benefits. Chapter 389 provides that the special veterans' retirement allowance that may be available within the above-mentioned systems are applicable to retirement benefits after January 19, 1988. However, these benefits will only be payable on a prospective basis after January 16, 1992. There is no provision for the payment of such veterans' benefits on a retroactive basis. The first benefit payments that would be affected under this law would be those for the month of February which is payable March 1, 1992. This law was approved and became effective on January 16, 1992.

CHAPTER 390, LAWS OF 1991 expands the definition of veteran with the TPAF, PERS and PFRS. The qualifying termination dates of World War II, the Korean Conflict and the Vietnam Conflict are extended and veteran status for pension purposes is extended to persons who served at least 14 days within the military within the area of conflict during Lebanon, Grenada, Panama and Operation Desert Shield/Storm hostilities.

In order to establish veteran status, the member must have at least 90 days of active service in:

World War II between September 16, 1940 and December 31, 1946;
the Korean Emergency between June 23, 1950 and January 1, 1955; and
the Vietnam Conflict between December 31, 1960 and May 7, 1975.

Chapter 390 also establishes veteran eligibility for those who served at least 14 days (except for those incurring a service-connected disability during a shorter period of time)

in the territory or aboard ships within the territorial waters of Lebanon, Grenada, Panama and the Arabian Peninsula or in the Persian Gulf during the Desert Storm Conflict. The dates of such qualifying service for the:

Lebanon Conflict are between September 26, 1982 and February 26, 1984;
Grenada Conflict are between October 25, 1983 and November 21, 1983;
Panama Peacekeeping Mission are between December 20, 1989 and
January 31, 1990; and
Operation Desert Shield/Storm are between August 2, 1990 and the
present.

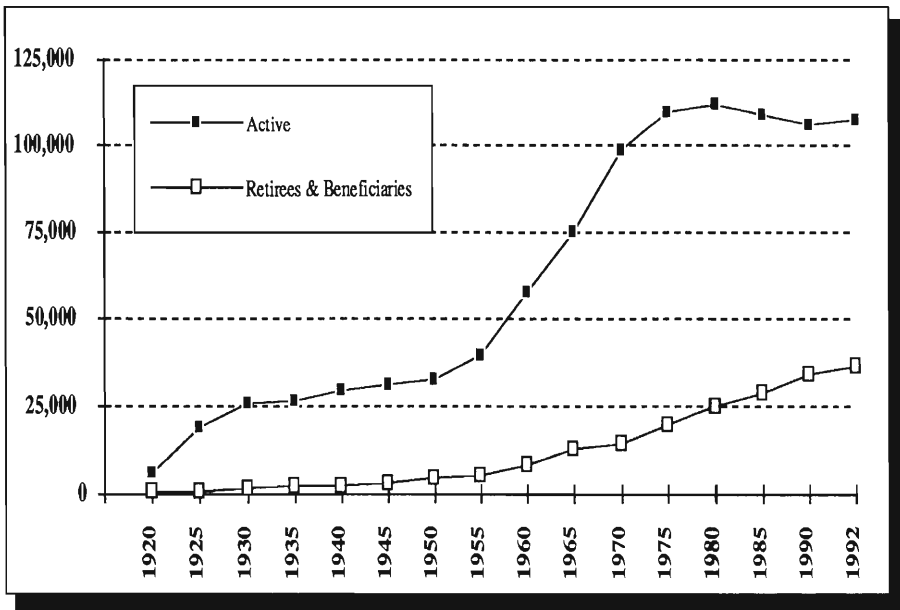
A current retiree or surviving spouse of a retiree from the PERS or TPAF who now meets the qualifications for a veteran would be eligible to now receive the special veterans' retirement benefits. However, such special veterans' benefits will not be paid on a retroactive basis. This law was approved and became effective on January 16, 1992.

CHAPTER 41, LAWS OF 1992 provides for the revaluation of the investment assets within the TPAF, JRS, CPFPF, PERS, PFRS and SPRS. Essentially, this law permits the use of recent or current market values to evaluate the securities portfolio within the applicable retirement systems. Also, the law changes the definition of "regular interest" as well as the selection or election process regarding members of the various Boards of Trustees of those retirement systems. This law was approved and became effective on June 30, 1992.

MEMBERSHIP

- As of June 30, 1992, the active contributing membership of the system totaled 106,957*.
- There were 36,406 retirees and beneficiaries receiving annual pensions totaling \$510,912,644 (This includes benefits paid under the provisions of the Pensions Adjustment Act).
- Beneficiaries of 1,343 deceased active and retired members received lump sum death benefits in the amount of \$35,086,952.
- The system's assets totaled \$11,648,944,012 at the close of fiscal year 1992.

* Total Inactive Membership as of June 30, 1992 was 9,441.



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MEMBERSHIP ACTIVITY

During fiscal year 1992, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Teachers' Pension and Annuity Fund of New Jersey.

- **WITHDRAWAL** - 1,820 members withdrew from the system.
- **LOANS** - 25,289 members applied for and received loans on their accounts totaling \$144,571,634.
- **RETIREMENT** - 2,341 members retired under the following retirement types and options:

TYPE OF RETIREMENT

Service	1,060
Early	577
Deferred	126
Ordinary Disability	92
Accidental Disability	3
Veteran	483
Accidental Death	<u>0</u>
TOTAL	2,341

OPTION SELECTION

Maximum	1,192
Option 1	386
Option 2	414
Option 3	295
Option 4	<u>54</u>
TOTAL	2,341

KPMG PEAT MARWICK
New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the State of New Jersey Teachers' Pension and Annuity Fund (a component unit of the State of New Jersey) as of June 30, 1992, and the related statement of revenues, expenses and changes in fund balances for the year then ended. These component unit financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit. The component unit financial statements of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1991 were audited by other auditors whose report thereon dated October 22, 1991, expressed an unqualified opinion on those component unit financial statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in notes 2, 3 and 4, the State of New Jersey enacted legislation during the year ended June 30, 1992 which revised the actuarial funding methodology and actuarial assumptions retroactive to the March 31, 1990 valuation date. Significant changes required under the pension revaluation include the following: (1) the asset valuation method used to determine obligations and contributions has been changed from book value to market related value; (2) The actuarial cost method was revised on the basis of entry age normal cost method with a frozen supplemental liability; (3) the rate at which unfunded pension adjustment and post-retirement medical benefits are being phased-in was accelerated; (4) the assumed rate of return on investments was increased from 7% to 8.75%; (5) salary increases ranging from 7.25% at age 25 to 5.0% at age 70; and (6) 3% increase in cost-of-living benefit provisions, as a result of the aforementioned

changes, the unfunded pension benefit obligations decreased by \$2,696,217,000 to \$3,896,208,000 in the 1990 plan year, the unfunded accrued liabilities decreased by \$2,381,343,000 to \$726,078,000 in the 1990 plan year and the Fund returned excess employer contributions in the amount of \$373,900,000 to the State of New Jersey on June 30, 1992.

In our opinion, the 1992 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 as of June 30, 1992, and its revenues, expenses and changes in fund balances for the year then ended in conformity with generally accepted accounting principles.

Our audit for the year ended June 30, 1992, was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplementary information included in the schedules of analysis of funding progress and revenues by source and expenses by type for the year ended June 30, 1992, is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, after considering the revisions to the prior years' information required by the pension revaluation discussed in notes 2, 3 and 4 to the component unit financial statements, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole for the year ended June 30, 1992.

We have also previously audited, in accordance with generally accepted auditing standards, the balance sheets of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1985, 1984, and 1983, and the related statements of revenues, expenses and changes in fund balances for the years then ended (none of which is presented herein), and we expressed unqualified opinions on those component unit financial statements. In our opinion, the supplementary information included in the schedule of revenues by source and expenses by type related to the 1985, 1984, and 1983 component unit financial statements is fairly stated in all material respects in relation to the component unit financial statements from which it has been derived.

The report of the other auditors referred to above, dated October 22, 1991, stated that the supplementary information, prior to the revision for the pension revaluation, for the six years ended June 30, 1991, included in the schedules of analysis of funding progress and revenues by source and expenses by type was fairly stated in all material respects in relation to the basic component unit financial statements for the six years ended June 30, 1991, taken as a whole.

/s/ KPMG Peat Marwick

December 18, 1992

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

Balance Sheets

June 30, 1992 and 1991

	<u>1992</u>	<u>1991</u>
Assets:		
Investments, at cost:		
Bonds (market value of \$248,025,640 in 1992 and \$214,885,228 in 1991)	\$ 236,948,225	215,734,784
Common Pension Fund A (market value of \$6,979,226,734 in 1992 and \$5,855,736,442 in 1991)	4,419,350,351	3,846,183,015
Common Pension Fund B (market value of \$4,442,015,655 in 1992 and \$3,892,488,815 in 1991)	4,180,264,877	3,842,398,569
Common Pension Fund D (market value of \$632,879,027 in 1992 and \$139,221,100 in 1991)	562,597,436	140,083,630
Cash Management Fund (market value of \$509,659,238 in 1992 and \$645,510,164 in 1991)	509,659,238	645,510,164
Mortgages (market value of \$1,409,295,154 in 1992 and \$1,549,420,564 in 1991)	1,317,454,449	1,509,969,251
Total investments	<u>11,226,274,576</u>	<u>10,199,879,413</u>
Receivables:		
Contributions:		
Members	55,226,177	52,826,624
Employer	1,504,183	584,220
Investments:		
Accrued interest	145,352,611	108,117,172
Dividends	49,506,375	43,214,728
Members' loans	144,571,634	141,891,526
Other	<u>26,508,456</u>	<u>3,149,635</u>
Total receivables	422,669,436	349,783,905
Cash	-	38,929,084
Total assets	<u>\$ 11,648,944,012</u>	<u>10,588,592,402</u>

See accompanying notes to component unit financial statements.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

Balance Sheets

June 30, 1992 and 1991

	<u>1992</u>	<u>1991</u>
Liabilities and fund balances:		
Liabilities:		
Retirement benefits payable	\$ 44,407,459	39,799,273
Death benefits payable	1,563,881	1,460,892
Cash overdraft	372,657,521	-
Payable for investments purchased	68,031,437	65,797,409
Accounts payable and accrued expenses	<u>4,753,355</u>	<u>4,359,287</u>
Total liabilities	<u>491,413,653</u>	<u>111,416,861</u>
Fund balances:		
Members' annuity savings fund and accumulative interest	2,373,141,491	2,164,292,407
Contingent reserve fund	3,688,447,799	3,637,594,547
Retirement reserve fund	4,931,801,513	4,521,586,055
Special reserve fund	111,745,714	101,521,105
Contributory group insurance premium fund	<u>52,393,842</u>	<u>52,181,427</u>
Total fund balances	<u>11,157,530,359</u>	<u>10,477,175,541</u>
Total liabilities and fund balances	<u>\$ 11,648,944,012</u>	<u>10,588,592,402</u>

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

Statements of Revenues, Expenses and Changes in Fund Balances

For the year ended June 30, 1992

	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Contributions:			
Members	\$ 186,270,872	-	-
Employers	-	288,482,845	-
Investment revenue	144,429,429	381,613,051	316,427,542
Other	-	-	-
Total revenues	<u>330,700,301</u>	<u>670,095,896</u>	<u>316,427,542</u>
Expenses:			
Benefit payments	-	-	401,439,311
Cost-of-living adjustments	-	-	109,473,333
Withdrawals	10,863,284	-	-
Noncontributory group insurance death benefits	-	16,777,667	-
Administrative expenses	-	8,678,450	-
Other	-	100,073,900	-
Total expenses	<u>10,863,284</u>	<u>125,530,017</u>	<u>510,912,644</u>
Excess (deficiency) of revenues over expenses	319,837,017	544,565,879	(194,485,102)
Transfer among funds:			
Retirements	(111,383,533)	(497,200,550)	608,584,083
Others	395,600	3,487,923	(3,883,523)
Fund balances, beginning of year	<u>2,164,292,407</u>	<u>3,637,594,547</u>	<u>4,521,586,055</u>
Fund balances, end of year	<u>\$ 2,373,141,491</u>	<u>3,688,447,799</u>	<u>4,931,801,513</u>

<u>Special Reserve Fund</u>	<u>Contributory Group Insurance Premium Fund</u>	<u>Other Fund</u>	<u>Total</u>
-	17,268,115	-	\$ 203,538,987
-	-	-	288,482,845
10,224,609	2,738,973	-	855,433,604
<u>-</u>	<u>-</u>	<u>30,073</u>	<u>30,073</u>
<u>10,224,609</u>	<u>20,007,088</u>	<u>30,073</u>	<u>1,347,485,509</u>
-	-	-	401,439,311
-	-	-	109,473,333
-	-	-	10,863,284
-	-	-	16,777,667
-	-	-	8,678,450
<u>-</u>	<u>19,794,673</u>	<u>30,073</u>	<u>119,898,646</u>
<u>-</u>	<u>19,794,673</u>	<u>30,073</u>	<u>667,130,691</u>
10,224,609	212,415	-	680,354,818
-	-	-	-
-	-	-	-
<u>101,521,105</u>	<u>52,181,427</u>	<u>-</u>	<u>1 0,477,175,541</u>
<u>111,745,714</u>	<u>52,393,842</u>	<u>-</u>	<u>\$ 11,157,530,359</u>

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

Statements of Revenues, Expenses and Changes in Fund Balances

For the year ended June 30, 1991

	Members' Annuity Savings Fund and Accumulative <u>Interest</u>	Contingent <u>Reserve Fund</u>	Retirement <u>Reserve Fund</u>
Revenues:			
Contributions:			
Members	\$ 172,724,019	-	-
Employers	-	578,285,349	-
Investment revenue	128,822,081	361,063,787	294,573,479
Other	-	-	-
Total revenues	<u>301,546,100</u>	<u>939,349,136</u>	<u>294,573,479</u>
Expenses:			
Benefit payments	-	-	358,246,434
Cost-of-living adjustments	-	-	100,765,541
Withdrawals	13,727,134	-	-
Noncontributory group insurance death benefits	-	16,481,335	-
Administrative expenses	-	8,110,762	-
Other	-	46,453,145	-
Total expenses	<u>13,727,134</u>	<u>71,045,242</u>	<u>459,011,975</u>
Excess (deficiency) of revenues over expenses	287,727,134	868,303,894	(164,438,496)
Transfer among funds:			
Retirements	(87,788,405)	(390,653,501)	478,441,906
Others	125,695	(170,014,572)	169,888,877
Fund balances, beginning of year	<u>1,964,136,151</u>	<u>3,329,958,726</u>	<u>4,037,693,768</u>
Fund balances, end of year	<u>\$ 2,164,292,407</u>	<u>3,637,594,547</u>	<u>4,521,586,055</u>

<u>Special Reserve Fund</u>	<u>Contributory Group Insurance Premium Fund</u>	<u>Other Fund</u>	<u>Total</u>
-	16,131,349	-	\$ 188,855,368
-	-	-	578,285,349
9,825,636	4,016,748	-	798,301,731
-	-	44,797	44,797
<u>9,825,636</u>	<u>20,148,097</u>	<u>44,797</u>	<u>1,565,487,245</u>
-	-	-	358,246,434
-	-	-	100,765,541
-	-	-	13,727,134
-	-	-	16,481,335
-	-	-	8,110,762
-	17,889,100	44,797	64,387,042
-	17,889,100	44,797	561,718,248
9,825,636	2,258,997	-	1,003,768,997
-	-	-	-
-	-	-	-
<u>91,695,469</u>	<u>49,922,430</u>	<u>-</u>	<u>9,473,406,544</u>
<u>101,521,105</u>	<u>52,181,427</u>	<u>-</u>	<u>\$ 10,477,175,541</u>

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements

June 30, 1992 and 1991

(1) Summary of Significant Accounting Policies

The component unit financial statements of the State of New Jersey 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 Statements Numbers 3 and 5 of the Governmental Accounting Standards Board (GASB), "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements" and "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers," respectively.

Security valuation:

Bonds with fixed maturities are reported at cost adjusted for amortization of premiums 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 net realized gains.

Investments in the State of New Jersey 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 premiums 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 income on investments is recognized when earned and dividends are recorded on the ex-dividend date.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(1) Summary of Significant Accounting Policies, continued

Administrative Expenses:

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. 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 employer contributions.

(2) Description of the Fund

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 and agency funds in the general purpose financial statements of the State of New Jersey.

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 who have titles that are unclassified, professional and certified. The Fund's Board of Trustees is responsible for the organization and administration of the Fund.

Membership in the Fund as of March 31, 1991, 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>37,030</u>
Active members:	
Vested	74,419
Nonvested	<u>39,163</u>
Total active members	<u>113,582</u>

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(2) Description of the Fund, continued

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%. Outstanding loans to members who withdraw from the Fund prior to retirement are satisfied by applying the member's loan balance against the member's contributions. Upon retirement, termination or death, any outstanding loans are repaid from withholdings from the retiree's benefit checks.

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 (as defined). 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 service credit, as defined, or they may elect deferred retirement after achieving 10 years of service credit, 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, as defined, 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 earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60 percent 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-

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(2) Description of the Fund, continued

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 a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

In accordance with legislation enacted during the current year, the actuarial funding methodology has been revised retroactive to the March 31, 1990 valuation period. Significant changes required under the pension revaluation include the following: (1) the asset valuation method has been changed from book value to market related value which reflects 20 percent of the difference between the actuarial value of assets and the actual market value of Fund assets; (2) the actuarial cost method was revised on the basis of entry age normal cost method with a frozen supplemental liability; (3) the rate at which unfunded pension adjustment and post-retirement medical benefits are being phased-in was accelerated; (4) the assumed rate of return on investments was increased from 7% to 8.75%. The effect of these changes on the pension benefit obligation and employer funding requirements is disclosed in Notes 3 and 4.

Legislation was passed in 1991 which provided early retirement incentives for State employees who met certain age and service requirements and applied for retirement between April 1, 1991 and September 1, 1991. An employee who was at least 50 with a minimum of 25 years of service credit received an additional 5 years of service credit. An employee who was at least 60 with a minimum of 20 years of service received paid health coverage.

Similar legislation was enacted affecting local and regional Boards of Education and County Institutions who passed an Early Retirement Incentive resolution for the district. This affected mainly employees of school districts who applied for retirement between July 1, 1991 and July, 1992 and who met the aforementioned age and service requirements. The adopting entities will assume the increase cost for the Early Retirement as it affects their district.

Other:

According to the administrative code, all obligations of the Fund will be assumed by the

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(2) Description of the Fund, continued

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 and Benefits.

(3) 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 4.

The benefit obligations were determined as part of the most recent annual actuarial valuation dated March 31, 1991 (See Note 2). The liabilities were determined as of March 31 and projected forward to June 30, 1991 allowing for increases in benefits and variations in the population during the three month period.

The projected unfunded pension benefit and post-retirement medical benefit obligations as of June 30, 1991 were:

	<u>Pension benefit obligation</u>	(In 000's)	<u>Post- retirement medical benefit obligation</u>
Benefit Obligations:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 4,446,460		768,080

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(3) Pension Benefit and Post-Retirement Medical Benefit Obligations, continued

Current employees:

Accumulated employees' contributions with interest	2,124,500	-
Employer-financed vested	7,077,420	2,286,290
Employer-financed nonvested	523,920	185,380
Total benefit obligations, including cost-of-living adjustments	14,172,300	3,239,750

Net assets available for benefits at market-related value (market value of net assets available for benefit obligations amounts to \$12,622,332)	12,732,271	88,217
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Unfunded benefit obligations	\$ 1,440,029	3,151,533
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The above pension benefit and post-retirement medical benefit obligations were calculated based on the actuarial assumptions of a) discount rate of 8.75% compounded annually; b) salary increases ranging from 7.25% at age 25 to 5.0% at age 70 which includes inflation, merit and productivity; c) assets stated at market-related value which recognizes 20% of the realized and unrealized appreciation in value each year; d) 3.0% increase in cost-of-living benefit provisions; e) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary; and f) medical premium increases of 12% for the next ten years and 7% thereafter.

The actuarial assumptions used in the revalued March 31, 1991 and 1990 pension benefit obligations are the same.

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(3) Pension Benefit and Post-Retirement Medical Benefit Obligations, continued

As part of the pension revaluation the following actuarial assumption changes were made retroactive to March 31, 1990: a) the interest rate was increased from 7% to 8.75%; b) the average expected increase in compensation was raised from 4.75% to 6.25%; c) the asset valuation method was changed from book and amortized cost value to market-related value; d) the anticipated level of COLA was raised from 2.5% to 3.0%, and e) the level of medical inflation was increased from 10% to 12% for the 10 year period following the 1990 valuation. As a result of these changes in actuarial assumptions and the change in actuarial method, the unfunded obligations as of June 30, 1990 were revalued and decreased by \$2,696,217,000 to \$3,896,208,000. The unfunded benefit obligations at June 30, 1991 were approximately \$4,591,562,000.

(4) 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 member's age at date of enrollment. Once members are assigned a rate, it is not normally adjusted.

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 supplemental unfunded accrued liability" to determine normal costs which were revised and determined to be \$309,661,000 and \$233,578,000 as of March 31, 1991 and 1990, respectively. 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. The revised accrued liability funding costs for post-retirement medical premiums were \$41,317,000 and \$38,079,000 at March 31, 1991 and 1990, respectively. The State appropriation for the year ended June 30, 1992 is based on the revised 1990 actuarial valuation, while the appropriation in 1991 was based on the original 1989 actuarial valuation.

In connection with the pension revaluation, the Fund's actuarial accrued liability was revalued as of March 31, 1990 by resetting the normal contribution at the entry age normal cost level. As a result of the pension revaluation, the Fund's unfunded accrued liabilities decreased by \$2,381,343,000 to \$726,078,000 as of March 31, 1990. The

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(4) Contribution Policy, continued

revalued unfunded accrued liability for post-retirement medical (PRM) premiums for qualified retirees was determined to be \$759,782,000 as of March 31, 1991, which will be funded over a period of 28 years as a level percentage of covered payroll. The unfunded accrued liability for basic allowances and retiree COLA benefits was eliminated due to the change in the asset valuation method from book value to market-related value.

Total employer contributions received during the year from the State and state-related employers were based on the original March 31, 1990 actuarial valuation. These amounts were redetermined under the pension revaluation and reduced. In accordance with the legislation, the Fund reimbursed to the State (General Fund) the contributions paid in excess of the revalued amount, which was originally \$619,157,000. On June 30, 1992, the Fund issued a payment to the State in the amount of \$373,900,000, which consisted of \$333,800,000 in contributions and \$40,100,000 in interest.

Total pension contributions recognized for the year ended June 30, 1992 and 1991 were \$474,754,000 and \$751,009,000, respectively (\$288,483,000 in 1992 and \$578,285,000 in 1991 from the State and \$186,271,000 in 1992 and \$172,724,000 in 1991 from members, or 6.4% and 4.1% in 1992 and 13.9% and 4.1% in 1991, respectively, of annual covered compensation) of which \$233,578,000 in 1992 and \$340,961,000 in 1991 represented the recommended normal contribution amount and \$38,079,000 in 1992 and \$233,053,000 in 1991 related to the accrued liability funding. The 1992 and 1991 State contributions are based on the 1991 and 1990 revised actuarial valuation.

(5) 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% for the years ended June 30, 1992 and 1991. 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 trans-

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(5) Description of Fund Balances, continued

ferred 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 1992 and 1991) 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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(5) Description of Fund Balances, continued

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 \$57,703,000 and \$47,769,000 in the Cash Management Fund at June 30, 1992 and 1991, respectively. 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 benefit program plus reserves held by the insurance carrier.

Members are required by statute to participate in the contributory group insurance plan in the 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, as defined.

(6) Investments

The State of New Jersey Division of Investment 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 and Benefits. 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 particulars as to the size of the custodial institution, amount of the portfolio to be covered by the agreements, and other pertinent matters.

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(6) Investments, continued

GASB Statement No. 3 requires disclosure of the level of investment risk assumed by the Fund. 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, 1992 and 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.

The following presents a summary of investment securities as of June 30, 1992 and 1991 and the approximate market values. Investments that represent 5 percent or more of the Fund's net assets are separately identified with an asterisk.

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(6) Investments, continued

	1992	
	Book value	Market value
	(In 000's)	
Bonds:		
U.S. and municipal government bonds	\$ 5,980	6,290
Industrial bonds	312	312
Telephone bonds	7,647	7,473
Gas, electric, and water bonds	33,452	33,330
Railroad equipment obligations	491	494
Other	<u>189,066</u>	<u>200,127</u>
	236,948	248,026
Common Pension Fund A	4,419,350 *	6,979,227
Common Pension Fund B	4,180,265 *	4,442,016
Common Pension Fund D	562,598 *	632,879
State of New Jersey Cash Management Fund	509,659	509,659
Mortgages	<u>1,317,455</u>	<u>1,409,295</u>
Total	<u>\$ 11,226,275</u>	<u>14,221,102</u>

	1991	
	Book value	Market value
	(In 000's)	
Bonds:		
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	<u>125,931</u>	<u>127,707</u>
	215,735	214,885

**STATE OF NEW JERSEY
TEACHERS' PENSIONS AND ANNUITY FUND**

Notes to Component Unit Financial Statements, Continued

(6) Investments, continued

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	<u>1,509,969</u>		<u>1,549,421</u>
Total	<u>\$ 10,199,879</u>		<u>12,297,262</u>

(7) Litigation

Subsequent to the enactment of the pension revaluation legislation (Chapter 41, P.L. 1992), various labor unions filed suit on July 21, 1992 naming as defendants the State Treasurer, the Directors of the Division of Pensions and Benefits and the Division of Investments, and the Trustees of the Teachers' Pension and Annuity Fund, Public Employees' Retirement System, Police and Firemen's Retirement System and State Police Retirement System. The suit alleges that certain provisions of Chapter 41, P.L. 1992 violate the contract, equal protection and due process clauses of the United States and New Jersey Constitutions, that implementation of Chapter 41, P.L. 1992 will result in a breach of trust and fiduciary duties of the Boards of Trustees of the four pension systems, and that certain changes in the pension system constitute a taking of property without just compensation. Plaintiffs are seeking to permanently enjoin the defendants from administering, enforcing, and implementing Chapter 41, P.L. 1992 as well as judgment directing the State Treasurer to refund all monies allegedly diverted pursuant to Chapter 41, P.L. 1992 from the pension systems and paid into the General Fund. The State intends to defend the suit vigorously. The State is unable to determine the outcome of the suit at this time.

(8) Income Tax Status

Based on a 1986 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. In the opinion of the State of New Jersey Division of Pensions and Benefits, the Fund has operated within the terms of the Fund and remains qualified under the applicable provisions of the Internal Revenue Code.

Schedule 1

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND
Required Supplementary Information
Analysis of Funding Progress
(In millions)
For the years 1986 through 1992**

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

Pension Benefit Obligations:

Plan Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
	Net Assets Available For Benefits	Benefit Obligations	Percentage Funded (1)/(2)	Unfunded Benefit Obligations (2)-(1)	Annual Covered Payroll	Unfunded Benefit Obligations As A Percentage 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(R)	11,593.8	12,791.8	90.6	1,198.0	4,171.5	28.7
1992	12,732.3	14,172.3	89.8	1,440.0	4,494.1	32.0

Post-Retirement Medical Premiums Obligations:

Plan Fiscal Year	Net Assets Available For Benefits	Benefit Obligations	Percentage Funded	Unfunded Benefit Obligations
1988	\$ -	\$ 2,306.4	-	\$ 2,306.4
1989	-	2,200.7	-	2,200.7
1990	54.2	3,333.5	2.0%	3,279.3
1991(R)	48.8	2,747.0	1.8	2,698.2
1992	88.2	3,239.7	2.7	3,151.5

(R): Revised for pension revaluation.

Analysis of the dollar amounts of net assets available for benefits, benefit obligations, and unfunded benefit obligations in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the benefit obligations 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 obligations 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 Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Fund.

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

Note—Beginning in 1988 the pension benefit obligations reflect the impact of funding cost-of-living adjustments and, accordingly, amounts related to fiscal 1989 have been revalued. Also in 1988 the Fund assumed the obligation for post-retirement medical premiums. Beginning in 1991, assets are valued at market related value which recognizes realized and unrealized gains and losses in excess of book value, expected over a five-year period.

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Schedule 2

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND
Required Supplementary Information
Revenues by Source and Expenses by Type
For the years 1983 through 1992**

Revenues By Source					
Plan Fiscal Year	Members' Contributions	Employer Contributions	Percentage of Annual Covered Compensation	Investment Revenue	Total
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
1992	186,270,872	288,482,845	6.42	852,694,631	1,327,448,348

Expenses By Type					
Plan Fiscal Year	Benefits		Withdrawals And Administrative Expenses	Transfers to Other Retirement Systems	Total
	Retirement	Other*			
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	155,573,788	20,818,216	2,787,264	537,425,702
1992	401,439,311	185,679,777	18,811,989	1,353,792	607,284,869

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

Contributions were made in accordance with actuarially determined contribution requirements.

The 1992 State/local contributions reflect the net amount, after the refund, resulting from the pensions revaluation.

