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



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ANNUAL REPORT

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

**BOARD OF TRUSTEES
as of June 30, 1993**

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NEW JERSEY DIVISION OF PENSIONS AND BENEFITS
50 West State Street Trenton, New Jersey 08625-0295

STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY

Brian W. Clymer, Treasurer

DIVISION OF PENSIONS AND BENEFITS

Margaret M. McMahon, Director

**To The Honorable
Christine Todd Whitman
Governor of the State of New Jersey**

Dear Governor Whitman:

The Board of Trustees of the Teachers' Pension and Annuity Fund is pleased to present the Fiscal Year 1993 Annual Report in compliance with the provisions of N.J.S.A. 18A:66-59.

Respectfully Submitted,

HARRY BALDWIN
Chairperson

SIGNIFICANT LEGISLATION

CHAPTER 7, LAWS OF 1993 mandates that the State of New Jersey is to be considered as the employer, for pension and Social Security purposes, for the employees of the school district enrolled in the TPAF. The State's liability is only for contributions regarding the employees' base or contractual salaries. Recently, there was legislation enacted that would make the school district itself liable for such pension and Social Security contributions. Chapter 7 will now revert the situation back to the method that it was prior to the recent legislation.

This law was approved and became effective on January 14, 1993.

CHAPTER 8, LAWS OF 1993, contains provisions that affect various State-administered retirement systems. The provisions of Chapter 8 adjusts the revaluation of certain items associated with the TPAF and alters the funding process of and the eligibility for enrollment in the State Health Benefits Program for certain active and retired employees of boards of education within New Jersey.

The pension adjustment and health care benefits for qualified retirees will be funded as employer obligations in the same manner that the law provides for the funding of the employer obligations for the basic retirement benefits payable within the TPAF. However, health care benefits for qualified retirees and their dependents shall be funded and paid through a separate fund or trust in order to comply with federal law.

Additionally, Chapter 8 mandates that the terms of the trustees appointed by the Governor who are currently serving on the PERS, TPAF, SPRS, PFRS and Consolidated Police and Firemen's Pension Commission shall terminate on July 31, 1993. However, such trustees shall continue to serve until their successors have been appointed and qualified.

Chapter 8 also implements a surcharge upon insurance companies, hospital service corporations, medical service corporations, health service corporations or health maintenance organizations that provide hospital or medical expense benefits that enter into a contract with or provide policies to a local board of education. The surcharge will be a percentage of the claims paid by the provider attributable to the coverage of the employees of the board and their dependents for the period from July 1st through the following June 30th.

After July 1, 1993, a former employee of a local board of education who is retired from employment with the board, is receiving a retirement benefit from a State or locally administered retirement system, is eligible for the Federal Medicare Program and is

participating in the health benefits plan of the board may enroll in the State Health Benefits Program upon the termination of any contract providing health benefits that was in effect on January 14, 1993. If the board does not elect to participate in the State Health Benefits Program at that time, they will not be permitted to again elect such participation generally for a period of five years.

This law was approved and became effective on January 4, 1993.

CHAPTER 44, LAWS OF 1993 provides comparable early retirement incentive benefits (ERI) to the 1991 benefits granted for members of the Alternate Benefit Program (ABP), Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) who are at least 50 years of age with 25 years of credited service (i.e., 5 additional years of service credit for PERS and TPAF eligible members or a full year's base salary for ABP participants) or who are at least 60 years old with 20 but less than 25 years of service credit (i.e., paid health benefits coverage in retirement). Eligible members must file a retirement application before June 1, 1993, with an effective retirement date between April 1, 1993 and July 1, 1993.

Eligible veterans within the PERS and TPAF can receive an additional pension above their usual veteran's pension that will be equal to 5/60ths of the highest 12 months of base salary paid during the last 3 years of membership.

An additional ERI benefit offered by Chapter 44 is the payment of \$500 per month for a maximum of 24 months to those eligible members who are at least 60 years of age with 10 but less than 20 years of service credit within the retirement system.

Chapter 44 permits the employment of such eligible member applying for these ERI benefits to be extended for a maximum of one year.

Eligible members may carry their outstanding loan payments into retirement by having the equivalent monthly amounts that were previously deducted from his or her paychecks immediately preceding retirement made against his or her monthly retirement allowances. Additionally, eligible members participating in this ERI program may purchase a portion rather than all of the service credit that he or she is eligible to purchase.

This law was approved on February 10, 1993.

CHAPTER 138, LAWS OF 1993 offers comparable ERI benefits permitted to those offered to State employees under the provisions of Chapter 44, Laws of 1993, to eligible employees of certain counties and county colleges and certain municipalities if the governing body of the participating employer adopts a resolution. The deadline for receiving such resolution within the Division of Pensions and Benefits is on or before

July 1, 1993, regarding counties and county colleges and September 1, 1993, regarding municipalities.

MEMBERSHIP

The ERI benefits are almost identical to those offered within Chapter 44 except that the free health benefits coverage for the members who are at least 60 years of age with 20 but less than 25 years of service credit would only be available if the employer currently offers such free medical coverage to retirants with 25 or more years of service. The eligible county or county college employees must file a retirement application between August 1, 1993 and December 1, 1993 with an effective retirement date between September 1, 1993 and January 1, 1994. Eligible municipal employees must file a retirement application between November 1, 1993 and March 1, 1994 with an effective date between December 1, 1993 and April 1, 1994.

This law was approved on June 14, 1993.

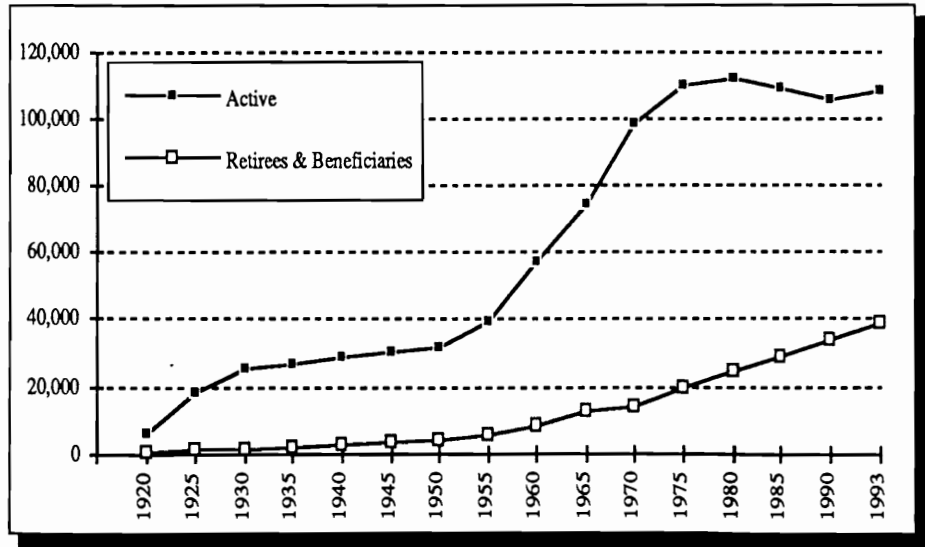
CHAPTER 163, LAWS OF 1993 provides ERI benefits for certain members of the PERS and TPAF who are employed by school boards, Educational Services Commissions and Jointure Commissions. With a few exceptions, the ERI benefits mandated by this law are comparable to the ERI benefits made available to State employees under the provisions of Chapter 44, Laws of 1993.

Participating employers must adopt a resolution accepting such provisions of this law on or before December 31, 1993 and shall notify the PERS, TPAF and the State Health Benefits Commission on or before January 1, 1994, of such adoption.

Chapter 163 does not contain the provisions within Chapter 44, Laws of 1993 concerning the purchase of service credit for eligible persons considering ERI retirement. Thus those purchase benefits within Chapter 44 are not available under the provisions of this law.

- As of June 30, 1993, the active contributing membership of the system totaled 108,534*.
- 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 1,500 deceased active and retired members received lump sum death benefits in the amount of \$38,749,534.
- The system's assets totaled \$12,110,398,700 at the close of fiscal year 1993.

* Total Inactive Membership as of June 30, 1992 was 9,518.



MEMBERSHIP ACTIVITY

During fiscal year 1993, 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** - 1,361 members withdrew from the system.
- **LOANS** - 24,348 members applied for and received loans on their accounts totaling \$144,935,883.
- **RETIREMENT** - 3,477 members retired under the following retirement types and options:

<u>TYPE OF RETIREMENT</u>		<u>OPTION SELECTION</u>	
Service	1,545	Maximum	1,810
Early	1,020	Option 1	567
Deferred	117	Option 2	583
Ordinary Disability	86	Option 3	456
Accidental Disability	4	Option 4	<u>61</u>
Veteran	<u>705</u>	TOTAL	3,477
TOTAL	3,477		

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 sheets of the State of New Jersey Teachers' Pension and Annuity Fund (a component unit of the State of New Jersey) as of June 30, 1993 and 1992, and the related statements of revenues, expenses and changes in fund balances for the years 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 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 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in notes 2 and 4, the State of New Jersey enacted legislation during the year ended June 30, 1993 which revised the actuarial funding methodology and actuarial assumptions retroactive to the March 31, 1990 valuation date. The significant change required under the pension revaluation was the establishment of an accrued liability rate for active cost-of-living adjustments and post-retirement medical benefits. Prior to this pension revaluation only retired cost-of-living adjustments and post-retirement medical benefits were included in the unfunded liabilities, while such benefits for active members were being phased in through the normal contribution. As a result of this change, unfunded liabilities increased from \$38,079,000 to \$3,940,048,000 as of March 31, 1990 and from \$759,782,000 to \$4,190,986,000 as of March 31, 1991.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1993 and 1992, and its revenues, expenses and changes in fund balances for the years then ended in conformity with generally accepted

Our audits for the years ended June 30, 1993 and 1992 were 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 years ended June 30, 1993 and 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 audits of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole for the years ended June 30, 1993 and 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 and 1984, 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 and 1984 component unit financial statements is fairly stated in all material respects in relation to the basic component unit financial statements from which it has been derived.

The component unit financial statements of the State of New Jersey Teachers' Pension and Annuity Fund as of and for the six years ended June 30, 1991 were audited by other auditors whose report thereon 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 component unit financial statements for the six years ended June 30, 1991, taken as a whole.

/s/ KPMG Peat Marwick

December 9, 1993

Balance Sheets

June 30, 1993 and 1992

	<u>1993</u>	<u>1992</u>
Assets:		
Investments, at cost:		
Bonds (market value of \$360,904,126 in 1993 and \$248,025,640 in 1992)	\$ 338,768,062	236,948,225
Common Pension Fund A (market value of \$7,787,584,255 in 1993 and \$6,979,226,734 in 1992)	4,641,126,985	4,419,350,351
Common Pension Fund B (market value of \$4,793,882,684 in 1993 and \$4,442,015,655 in 1992)	4,326,184,675	4,180,264,877
Common Pension Fund D (market value of \$1,167,702,697 in 1993 and \$632,879,027 in 1992)	1,025,332,627	562,597,436
Cash Management Fund (market value of \$507,850,210 in 1993 and \$509,659,238 in 1992)	507,850,210	509,659,238
Mortgages (market value of \$870,611,067 in 1993 and \$1,409,295,154 in 1992)	828,459,465	1,317,454,449
Total investments	<u>11,667,722,024</u>	<u>11,226,274,576</u>
Receivables:		
Contributions:		
Members	54,462,682	55,226,177
Employer	867,569	1,504,183
Investments:		
Accrued interest	192,840,889	145,352,611
Dividends	48,956,832	49,506,375
Members' loans	144,935,883	144,571,634
Other	612,821	26,508,456
Total receivables	<u>442,676,676</u>	<u>422,669,436</u>
 Total assets	 <u>\$ 12,110,398,700</u>	 <u>11,648,944,012</u>

See accompanying notes to component unit financial statements.

Balance Sheets

June 30, 1993 and 1992

	<u>1993</u>	<u>1992</u>
Liabilities and fund balances:		
Liabilities:		
Retirement benefits payable	\$ 51,161,792	44,407,459
Death benefits payable	1,797,280	1,563,881
Cash overdraft	945,282	372,657,521
Payable for investments purchased	146,856,696	68,031,437
Accounts payable and accrued expenses	4,998,636	4,753,355
Total liabilities	<u>205,759,686</u>	<u>491,413,653</u>
 Fund balances:		
Members' annuity savings fund and accumulative interest	2,584,431,134	2,373,141,491
Contingent reserve fund	3,712,181,802	3,688,447,799
Retirement reserve fund	5,472,576,093	4,931,801,513
Special reserve fund	82,689,498	111,745,714
Contributory group insurance premium fund	52,760,487	52,393,842
Total fund balances	<u>11,904,639,014</u>	<u>11,157,530,359</u>
 Total liabilities and fund balances	 <u>\$ 12,110,398,700</u>	 <u>11,648,944,012</u>

Statements of Revenues, Expenses and Changes in Fund Balances

For the year ended June 30, 1993

	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Fund	Other Fund	Total
Revenues:							
Contributions:							
Members	\$ 200,184,319	-	-	-	18,629,272	-	\$ 218,813,591
Employers	-	347,312,560	-	-	-	-	347,312,560
Investment revenue	189,134,709	312,635,740	412,579,859	-	1,941,011	-	916,291,319
Other	-	-	-	-	-	24,117	24,117
Total revenues	<u>389,319,028</u>	<u>659,948,300</u>	<u>412,579,859</u>	<u>-</u>	<u>20,570,283</u>	<u>24,117</u>	<u>1,482,441,587</u>
Expenses:							
Benefit payments	-	-	481,991,475	-	-	-	481,991,475
Cost-of-living adjustments	-	-	116,175,042	-	-	-	116,175,042
Withdrawals	9,969,566	-	-	-	-	-	9,969,566
Noncontributory group insurance death benefits	-	18,545,896	-	-	-	-	18,545,896
Administrative expenses	-	8,262,263	-	-	-	-	8,262,263
Health Benefit Premiums and other	-	80,160,935	-	-	-	-	80,160,935
Total expenses	<u>9,969,566</u>	<u>106,969,094</u>	<u>598,166,517</u>	<u>-</u>	<u>20,203,638</u>	<u>24,117</u>	<u>100,388,690</u>
Excess (deficiency) of revenues over expenses	379,349,462	552,979,206	(185,586,658)	-	366,645	-	747,108,655
Transfer among funds:							
Retirements	(168,542,439)	(777,718,758)	946,261,197	-	-	-	-
Others	482,620	248,473,555	(219,899,959)	(29,056,216)	-	-	-
Fund balances, beginning of year	<u>2,373,141,491</u>	<u>3,688,447,799</u>	<u>4,931,801,513</u>	<u>111,745,714</u>	<u>52,393,842</u>	<u>-</u>	<u>11,157,530,359</u>
Fund balances, end of year	<u>\$ 2,584,431,134</u>	<u>3,712,181,802</u>	<u>5,472,576,093</u>	<u>82,689,498</u>	<u>52,760,487</u>	<u>-</u>	<u>\$ 11,904,639,014</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	Special Reserve Fund	Contributory Group Insurance Premium Fund	Other Fund	Total
Revenues:							
Contributions:							
Members	\$ 186,270,872	-	-	-	17,268,115	-	\$ 203,538,987
Employers	-	288,482,845	-	-	-	-	288,482,845
Investment revenue	144,429,429	381,613,051	316,427,542	10,224,609	2,738,973	-	855,433,604
Other	-	-	-	-	-	30,073	30,073
Total revenues	<u>330,700,301</u>	<u>670,095,896</u>	<u>316,427,542</u>	<u>10,224,609</u>	<u>20,007,088</u>	<u>30,073</u>	<u>1,347,485,509</u>
Expenses:							
Benefit payments	-	-	401,439,311	-	-	-	401,439,311
Cost-of-living adjustments	-	-	109,473,333	-	-	-	109,473,333
Withdrawals	10,863,284	-	-	-	-	-	10,863,284
Noncontributory group insurance death benefits	-	16,777,667	-	-	-	-	16,777,667
Administrative expenses	-	8,678,450	-	-	-	-	8,678,450
Health Benefit Premiums and other	-	<u>100,073,900</u>	-	-	<u>19,794,673</u>	<u>30,073</u>	<u>119,898,646</u>
Total expenses	<u>10,863,284</u>	<u>125,530,017</u>	<u>510,912,644</u>	<u>-</u>	<u>19,794,673</u>	<u>30,073</u>	<u>667,130,691</u>
Excess (deficiency) of revenues over expenses	319,837,017	544,565,879	(194,485,102)	10,224,609	212,415	-	680,354,818
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>	<u>101,521,105</u>	<u>52,181,427</u>	<u>-</u>	<u>10,477,175,541</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>111,745,714</u>	<u>52,393,842</u>	<u>-</u>	<u>\$ 11,157,530,359</u>

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements

June 30, 1993 and 1992

(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 used for pension trust funds.

Financial statement footnote disclosures are in accordance with Statement Numbers 3 and 5 of the Government 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 a 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.

State of New Jersey Cash Management Fund units are stated at a cost of \$1.00 per unit, which approximates quoted market value. Investment income is recognized when earned and is distributed daily on the basis of units of ownership.

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. Administrative expenses are paid by the Fund and are 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 (which are subordinate to the retirement benefits) for qualified retirees, 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, 1992 and 1991 was as follows:

	<u>1992</u>	<u>1991</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>38,185</u>	<u>37,030</u>
Active members:		
Vested	74,717	74,419
Nonvested	<u>39,148</u>	<u>39,163</u>
Total active members	<u>113,865</u>	<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 ten 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 ten 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 three 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% 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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(2) Description of the Fund, continued

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% 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.

Legislation was passed in the current year which provided early retirement incentives to State of New Jersey employees who met certain age and service requirements and who applied for retirement on or before June 1, 1993 with a requested effective retirement date between April 1, 1993 and July 1, 1993. The early retirement incentives included the following: (a) an additional five years of service credit for employees at least age 50 with a minimum of 25 years of service; (b) free health benefits for employees at least 60 years old with at least 20 years of service; and (c) an additional \$500 per month for employees at least age 60 with ten but less than 20 years of service.

Early retirement legislation was enacted after June 30, 1993 affecting local boards of education, educational services commissions and jointure commissions who pass an Early Retirement Incentive resolution with the State of New Jersey Division of Pensions and Benefits by December 31, 1993. This affects employees who apply for retirement between February 1, 1994 and July 1, 1994 and who meet the aforementioned age and service requirements. The adopting entities would assume the increased cost for the early retirement as it affects their districts.

Chapter 8, P.L. 1993 required a reduction in the rate at which the State of New Jersey is recognizing unfunded liabilities for active cost-of-living adjustment (COLA) benefits and post-retirement medical (PRM) premiums. Under the pension revaluation, the phase in percentage for fiscal 1994 and 1995 was set at 48% and 56%, respectively, and 4% thereafter. Under the new legislation, the phase in percentage was changed to 34.5% and 40.5% in fiscal 1994 and 1995, respectively, and 6% thereafter.

Other

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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(2) Description of the Fund, continued

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 valuations dated March 31, 1992 and 1991 (see note 2). The liabilities were determined as of March 31 and projected forward to June 30, 1992 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, 1992 and 1991 were as follows:

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

	<u>Pension benefit obligation</u>	<u>Post- retirement medical benefit obligation</u>
	(In thousands)	
	<u>1992</u>	
Benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 4,899,980	925,330
Current employees:		
Accumulated employees' contributions with interest	2,324,090	-
Employer-financed vested	7,636,840	2,406,800
Employer-financed nonvested	<u>542,940</u>	<u>186,730</u>
 Total benefit obligations, including cost-of-living adjustments	 15,403,850	 3,518,860
 Net assets available for benefits at market-related value (market value of net assets available for benefit obligations amounts to \$14,204,060)	 <u>13,706,376</u>	 <u>142,070</u>
 Unfunded benefit obligations	 \$ <u>1,697,474</u>	 <u>3,376,790</u>

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

Notes to Component Unit Financial Statements, Continued

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

	<u>1991</u>	
Benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	4,446,460	768,080
Current employees:		
Accumulated employees' contributions with interest	2,124,500	-
Employer-financed vested	7,077,420	2,286,290
Employer-financed nonvested	<u>523,920</u>	<u>185,380</u>
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)	<u>12,732,271</u>	<u>88,217</u>
Unfunded benefit obligations	\$ <u>1,440,029</u>	<u>3,151,533</u>

The above pension benefit and post-retirement medical benefit obligations were calculated based on the actuarial assumptions of (a) 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) a 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 eight years and 7% thereafter.

(4) Contribution Policy

The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and the State of New Jersey. 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.

(4) Contribution Policy, continued

In accordance with the provisions of Chapter 385, P.L. 1987, contributions of the State of New Jersey 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. The normal contribution includes cost-of-living adjustments and the costs for medical premiums after retirement for qualified retirees and an amount that is required to fund noncontributory death benefits. As of March 31, 1992 and 1991, normal costs were determined to be \$253,394,000 and \$231,713,000, respectively. The accrued liability funding costs for active COLA benefits and post-retirement medical premiums were \$127,155,000 and \$118,412,000, respectively. The State of New Jersey appropriation for the year ended June 30, 1993 is based on the revised 1991 actuarial valuation.

In connection with Chapter 8, P.L. 1993, an accrued liability rate was established for active COLA and PRM benefits retroactive to the March 31, 1990 valuation. Prior to this legislation, only retiree COLA and PRM costs were included in the unfunded liabilities, while COLA and PRM benefits for active members were being phased in through the normal contribution. As a result of this change, unfunded liabilities were recomputed and increased from \$38,079,000 to \$3,940,048,000 as of March 31, 1990 and from \$759,782,000 to \$4,190,986,000 as of March 31, 1991. The unfunded accrued liability as of March 31, 1992, the date of the most recent actuarial valuation, was determined to be \$4,502,989,000. This amount is being funded over a period of 28 years as a level percentage of payroll.

Total employer contributions received during 1992 from the State of New Jersey 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 of New Jersey (General Fund) the contributions paid in excess of the revalued certified amount, which was originally \$619,157,000. On June 30, 1992, the Fund issued a payment to the State of New Jersey in the amount of \$373,900,000, which consisted of \$333,800,000 in contributions and \$40,100,000 in interest.

Notes to Component Unit Financial Statements, Continued

(4) Contribution Policy, continued

Total pension contributions recognized for the years ended June 30, 1993 and 1992 were \$547,497,000 and \$474,754,000, respectively (\$347,313,000 in 1993 and \$288,483,000 in 1992 from the State of New Jersey and \$200,184,000 in 1993 and \$186,271,000 in 1992 from members, or 7.2% and 4.2%, respectively, in 1993 and 6.4% and 4.1% in 1992, respectively, of annual covered compensation), of which \$253,394,000 in 1993 and \$231,713,000 in 1992 represented the recommended normal contribution amount and \$127,155,000 in 1993 and \$118,412,000 in 1992 related to the accrued liability funding. The 1993 and 1992 State of New Jersey contributions are based on the 1992 and 1991 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 8.75% and 7% for the years ended June 30, 1993 and 1992, respectively. After three years of participation, withdrawing members receive interest at an annual rate of 2% of their accumulative contributions with the remaining portion of interest forfeited.

Upon retirement of a member, the accumulated contributions plus interest are transferred to the Retirement Reserve Fund for subsequent payment of benefits.

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

Contingent Reserve Fund

The Contingent Reserve Fund is credited with the contributions of the State of New Jersey. Additionally, interest earnings of the Fund, after crediting the ASF and the Retirement Reserve Fund, as required, are credited to this account.

Notes to Component Unit Financial Statements, Continued

(5) Description of Fund Balances, continued

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. Interest as determined by the State Treasurer (8.75% and 7% in 1993 and 1992, respectively) is credited annually to the Retirement Reserve Fund.

Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Contingent Reserve Fund upon advice of the actuary.

Special Reserve Fund

The Special Reserve Fund is the fund to which excess interest earnings and net realized gains or losses from the sale of securities are transferred. The maximum limit on the accumulation of this account is 1% of the book value of the investments of the Fund excluding investments allocated to the Contributory Group Insurance Premium Fund, which amounted to \$52,341,000 and \$51,703,000 in the Cash Management Fund at June 30, 1993 and 1992, respectively. Amounts in excess of 1% are credited to the Contingent

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(5) Description of the Fund Balances, continued

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 pertinent matters.

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, 1993 and 1992, all investments held by the Fund are classified as Category 1.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(6) Investments, continued

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, 1993 and 1992 and the approximate market values.

	<u>Book value</u>	<u>Market value</u>
	(In thousands)	
	<u>1993</u>	
Bonds:		
U.S. and municipal government bonds	\$ 121,616	128,215
Industrial bonds	156	162
Telephone bonds	5,698	5,708
Gas, electric and water bonds	9,198	9,197
Other	<u>202,100</u>	<u>217,622</u>
	338,768	360,904
Common Pension Fund A	4,641,127*	7,787,584
Common Pension Fund B	4,326,185*	4,793,883
Common Pension Fund D	1,025,333*	1,167,703
State of New Jersey Cash Management Fund	507,850	507,850
Mortgages	<u>828,459</u>	<u>870,611</u>
Total	\$ <u>11,667,722</u>	<u>15,488,535</u>

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(6) Investments, continued

	<u>1992</u>	
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>

*Investments that represent 5% or more of the Fund's net assets.

(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 Investment, 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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Component Unit Financial Statements, Continued

(7) Litigation, continued

from administering, enforcing and implementing Chapter 41, P.L. 1992 as well as judgment directing the State Treasurer to refund all moneys allegedly diverted pursuant to Chapter 41, P.L. 1992 from the pension systems and paid into the General Fund. On February 5, 1993, the Superior Court granted the State of New Jersey's motion for summary judgment as to all claims. An appeal has been filed with the Appellate Division of Superior Court. The State of New Jersey intends to defend the suit vigorously. The State of New Jersey 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.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND
Required Supplementary Information
Analysis of Funding Progress
(In millions)
For the years 1986 through 1993

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 Obligations	(3) Percentage Funded (1)/(2)	(4) Unfunded Benefit Obligations As A Percentage Of Covered Payroll (2)-(1)/(4)/(5)	(5) Annual Covered Payroll
1986	\$ 5,033	\$ 5,175	97.3%	\$ 142	\$ 2,764
1987	5,840	6,831	85.5	991	3,012
1988	7,145	10,523	67.9	3,378	3,242
1989	8,176	11,655	70.1	3,479	3,537
1990	8,967	12,134	73.9	3,167	3,857
1991	11,594	12,792	90.6	1,198	4,172
1992	12,732	14,172	89.8	1,440	4,494
1993	<u>13,706</u>	<u>15,404</u>	<u>89.0</u>	<u>1,698</u>	<u>4,809</u>

Post-Retirement Medical Premiums Obligations:

Plan Fiscal Year	Net Assets Available For Benefits	Benefit Obligations	Percentage Funded	Unfunded Benefit Obligations
1988	\$ -	\$ 2,306	- %	\$ 2,306
1989	-	2,201	-	2,201
1990	54	3,334	2.0	3,280
1991	49	2,747	1.8	2,698
1992	88	3,240	2.7	3,152
1993	<u>142</u>	<u>3,519</u>	<u>4.0</u>	<u>3,377</u>

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.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND
Required Supplementary Information
Revenues by Source and Expenses by Type
For the years 1984 through 1993

Plan Fiscal Year	Revenues By Source				
	Members' Contributions	Employer Contributions	Percentage of Annual Covered Compensation	Investment Revenue	Total
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
1993	<u>200,184,319</u>	<u>347,312,560</u>	<u>7.22</u>	<u>914,350,308</u>	<u>1,461,847,187</u>

Plan Fiscal Year	Expenses By Type				
	Retirement Benefits	Other*	Withdrawals And Administrative Expenses	Transfers to Other Retirement Systems	Total
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
1993	<u>481,991,475</u>	<u>213,353,109</u>	<u>17,323,748</u>	<u>2,333,471</u>	<u>715,001,803</u>

* 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.