

PUBLIC EMPLOYEES'
RETIREMENT SYSTEM
OF
NEW JERSEY



1989
Annual Report

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**DEPARTMENT OF
THE TREASURY**

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Treasurer

**DIVISION OF
PENSIONS**

DOUGLAS R. FORRESTER
Director

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

50 West State Street
Trenton, New Jersey 08625

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MEMBERSHIP

Beginning with this report, all membership totals including retirement by type and option, will be located in the Notes to the Financial Statements, specifically Note B—Description of the System.

COMPARATIVE DATA

<u>Period Ending</u>	<u>Active</u>	<u>Retirees and Beneficiaries</u>	<u>Total</u>
June 30, 1955	34,087	2,649	36,736
June 30, 1960	50,576	7,116	57,692
June 30, 1965	68,086	10,445	78,531
June 30, 1970	113,866	13,298	127,164
June 30, 1975	171,518	21,682	193,200
June 30, 1980	205,038	35,185	240,223
June 30, 1985	236,060	50,939	286,999
June 30, 1988	257,380	60,130	317,510
March 31 1988*	247,503	61,537	309,040

*Beginning this report, total active and retired membership will be reported using the latest actuarial valuation for the system.

Standard Retirement Payroll on June 30, 1989

Regular Allowance (63,022 retirees and beneficiaries)	\$23,885,884
Pension Adjustment Act	<u>4,815,478</u>
Gross Payroll, month of June 1989	<u><u>\$28,701,362</u></u>

Comparative data on the standard retirement payroll and average allowances for selected June 30 periods follow:

<u>June 30</u>	<u>Number</u>	<u>Payroll (inc. Pension Adjustment Act)</u>
1955	2,649	\$ 2,848,923
1960	7,116	8,876,808
1965	10,445	16,737,419
1970	13,298	24,036,226
1975	21,682	53,518,488
1980	35,185	144,408,900
1985	50,939	213,581,142
1988	60,130	286,212,417
1989	63,022	327,634,351*

GROUP LIFE INSURANCE CLAIMS: (CASH BASIS)

Active Members

<u>Number</u>	<u>Settlement</u>	<u>Amount</u>	
842	Cash Lump Sum Reserve	\$49,794,777	
10	Monthly Annuities	<u>743,817</u>	
852	Total active member death claims		\$50,538,594

Retired Members

1,874	Regular Retirees (Death after age 60)—Lump Sum	\$ 5,503,955	
29	Disability Retirees (Death before age 60)—Lump Sum	<u>880,616</u>	
1,903	Total death claims—retirants		<u>\$ 6,384,571</u>
2,755	Total claims—active and retired members		<u><u>\$56,923,165</u></u>

SUMMARY OF CLAIM CHARGES (CASH BASIS)

Noncontributory Plan:

Active Members	852	\$26,057,963
Retirees	<u>1,903</u>	<u>6,384,571</u>
	2,755	\$32,442,534

Contributory Plan:

Active Members	<u>801</u>	<u>\$24,480,631</u>	<u>\$56,923,165</u>
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Return of Contributions:

a) 21,622 members withdrew from the system and received a return of the pension contributions totaling		\$32,929,017
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b) The survivors of 962 members who died before retirement received a return of the members' contributions totaling	8,387,020
c) Settlement of inactive accounts	<u>316,371</u>
	<u>\$41,632,408</u>

Loans:

53,758 members applied for and received loans on their accounts totaling \$95,578,870.

UNCLAIMED ACCOUNTS

Unclaimed accounts, June 30, 1988		\$3,328,594
Memberships discontinued and not settled during 1988-89	\$837,060	
Memberships discontinued and settled in 1988-89	<u>216,819</u>	
Added in fiscal year 1988-89		<u>1,053,879</u>
		<u>4,382,473</u>
Less:		
Cash settlements during fiscal year	\$316,371	
Cash escheat to State Treasurer	142,376	
Transferred to new accounts	<u>25,170</u>	<u>483,917</u>
BALANCE, JUNE 30, 1989		<u><u>\$3,898,556</u></u>

Lists of the new additions during 1988-89 have been sent to all employing units with a request that they circulate copies among their memberships in an effort to ascertain the whereabouts of the listed former members and advise the Division of Pensions.

Ernst & Young

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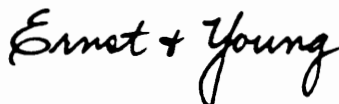
Board of Trustees
State of New Jersey
Public Employees' Retirement System

We have audited the accompanying component unit financial statements of the State of New Jersey Public Employees' Retirement System as of June 30, 1989 and 1988 and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Public Employees' Retirement System at June 30, 1989 and 1988, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Princeton, New Jersey
October 20, 1989

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

BALANCE SHEET

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

	June 30	
	1989	1988
ASSETS		
Investments, at cost:		
Bonds (market value of \$92,419,929 in 1989 and \$110,339,333 in 1988)	\$ 98,420,185	\$ 119,964,769
Common Pension Fund A (market value of \$3,754,582,490 in 1989 and \$3,270,996,873 in 1988)	2,724,739,949	2,560,411,153
Common Pension Fund B (market value of \$2,836,299,462 in 1989 and \$2,539,297,262 in 1988)	2,716,692,480	2,495,528,958
Cash Management Fund (market value of \$405,006,010 in 1989 and \$220,018,027 in 1988)	405,006,010	220,018,027
Mortgages (market value of \$1,131,764,829 in 1989 and \$915,217,030 in 1988)	1,115,352,362	924,752,999
Total Investments	<u>7,060,210,986</u>	<u>6,320,675,906</u>
Receivables:		
Contributions:		
Members	44,651,258	43,503,435
Employers	148,623,425	100,033,813
Investments:		
Accrued interest	77,160,043	71,842,471
Dividends	27,459,865	23,412,282
Members' loans	122,421,235	106,186,163
Due from Pension Adjustment Fund	4,835,430	4,451,959
Other	13,567,096	5,293,161
Total Receivables	<u>438,718,352</u>	<u>354,723,284</u>
Cash	9,931,270	7,237,401
TOTAL ASSETS	<u><u>\$7,508,860,608</u></u>	<u><u>\$6,682,636,591</u></u>

	June 30	
	1989	1988
LIABILITIES AND FUND BALANCES		
Liabilities:		
Retirement benefits payable	\$ 27,914,671	\$ 25,130,825
Death benefits payable	3,610,430	2,914,353
Payable for investments purchased	29,538,923	33,191,033
Accounts payable and accrued expenses	18,327,047	19,753,985
Total Liabilities	<u>79,391,071</u>	<u>80,990,196</u>
Fund Balances:		
Members' annuity savings fund and accumulative interest	1,792,399,838	1,603,691,860
Contingent reserve fund	3,119,711,779	2,743,038,475
Retirement reserve fund	2,414,732,449	2,159,037,876
Special reserve fund	70,275,522	62,870,375
Contributory group insurance premium reserve fund	32,349,949	33,007,809
Other fund	0	0
Total Fund Balances	<u>7,429,469,537</u>	<u>6,601,646,395</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$7,508,860,608</u></u>	<u><u>\$6,682,636,591</u></u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

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

	Fund Balances						Totals	
	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund	Year Ended June 30 1989	1988
	REVENUES							
Contributions:								
Members	\$ 213,157,484				\$25,427,852		\$ 238,585,336	\$ 223,897,907
Employers		\$ 351,766,381					351,766,381	308,668,135
Investment revenue	99,959,773	369,685,927	\$ 142,899,246	\$ 7,405,147	4,250,666		624,200,759	603,520,681
Pension Adjustment Fund						\$55,418,466	55,418,466	52,413,887
Other						89,774	89,774	95,154
TOTAL REVENUES	313,117,257	721,452,308	142,899,246	7,405,147	29,678,518	55,508,240	1,270,060,716	1,188,595,764
EXPENSES								
Benefit payments			272,126,110				272,126,110	242,959,969
Withdrawals	39,603,373						39,603,373	33,116,926
Noncontributory group insurance death benefits		35,684,551					35,684,551	34,179,691
Pension Adjustment Fund						55,418,466	55,418,466	52,413,887
Transfers to other funds	2,917,321	6,051,141					8,968,462	16,528,404
Other		10,460			30,336,378	89,774	30,436,612	30,996,272
TOTAL EXPENSES	42,520,694	41,746,152	272,126,110	0	30,336,378	55,508,240	442,237,574	410,195,149
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	270,596,563	679,706,156	(129,226,864)	7,405,147	(657,860)	0	827,823,142	778,400,615

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES—Continued

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

Fund Balances

	Fund Balances						Totals	
	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund	Year Ended June 30	
							1989	1988
Transfers between funds for:								
Retirements by members	(81,995,107)	(264,238,464)	346,233,571				0	0
Other	106,522	(38,794,388)	38,687,866				0	0
FUND BALANCES AT BEGINNING OF YEAR	<u>1,603,691,860</u>	<u>2,743,038,475</u>	<u>2,159,037,876</u>	<u>62,870,375</u>	<u>33,007,809</u>	<u>0</u>	<u>6,601,646,395</u>	<u>5,823,245,780</u>
FUND BALANCES AT END OF YEAR	<u>\$1,792,399,838</u>	<u>\$3,119,711,779</u>	<u>\$2,414,732,449</u>	<u>\$70,275,522</u>	<u>\$32,349,949</u>	<u>\$ 0</u>	<u>\$7,429,469,537</u>	<u>\$6,601,646,395</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

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

	Year Ended June 30	
	1989	1988
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	\$827,823,142	\$ 778,400,615
Items not requiring (providing) financial resources:		
Accretion and amortization—net	(3,727,949)	(2,256,965)
Net loss on sales and maturities of long-term investments	1,093,575	13,491,942
Net realized gain on Common Pension Funds A and B	(132,242,882)	(195,564,976)
	<u>692,945,886</u>	<u>594,070,616</u>
Proceeds from sales and maturities of long-term investments	293,137,700	447,214,945
Decrease (increase) in contributions receivable	(49,737,435)	1,736,328
Increase in retirement benefits payable	2,783,846	2,535,376
Increase in death benefits payable	696,077	380,895
Increase (decrease) in payable for investments purchased	(3,652,110)	33,191,033
Increase (decrease) in accounts payable and accrued expenses	(1,426,938)	7,105,337
Total sources of financial resources	<u>934,747,026</u>	<u>1,086,234,530</u>
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	712,807,541	1,046,706,555
Increase in Cash Management Fund	184,987,983	21,391,862
Increase in accrued investment income	9,365,155	9,971,852
Increase in other receivables	8,657,406	4,134,474
Increase in member loans	16,235,072	6,592,157
Total uses of financial resources	<u>932,053,157</u>	<u>1,088,796,900</u>
NET INCREASE (DECREASE) IN CASH	2,693,869	(2,562,370)
CASH, beginning of year	<u>7,237,401</u>	<u>9,799,771</u>
CASH, end of year	<u>\$ 9,931,270</u>	<u>\$ 7,237,401</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM

June 30, 1989

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Public Employees' Retirement System (System) are prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

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

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

Investments in the Common Pension Funds represent commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants. These investments are valued at cost plus undistributed realized net gains of \$132,585,932; consisting of \$123,225,203 in Common Pension Fund A and \$9,360,729 in Common Pension Fund B at June 30, 1989.

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

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

Purchases and sales of investments 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 sale occurs. Interest and dividend income on investments is recognized when earned.

Administrative Expenses: The system is administered by the State of New Jersey Division of Pensions. All administrative expenses for the years ended June 30, 1989 and 1988 were allocated to the State and State-related (local governmental agencies) employers and they were responsible for such cost. The System's assets available for paying benefits were not reduced for administrative expenses. Legislation passed subsequent to June 30, 1989 will require administrative expenses to be

NOTES TO FINANCIAL STATEMENTS—Continued

paid by the System. The expenses will be included in the normal cost of employer contributions in the following year.

NOTE B—DESCRIPTION OF THE SYSTEM

Organization: The System is a cost-sharing multiple-employer contributory defined benefit plan which was established as of January 1, 1955, under the provision of N.J.S.A. 43:15A. The System is considered a component unit of the State of New Jersey and is included along with other State-administered pension trust funds in the general purpose financial statements of the State.

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

Membership in the System as of March 31, 1988, 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	61,537
Active members:	
Vested	84,956
Nonvested	162,547
TOTAL	<u>247,503</u>

The following represents the membership activity concerning retirement by type and option for the fiscal year ended June 30, 1989:

<u>Service</u>	<u>Early</u>	<u>Deferred</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Veteran</u>	<u>Accidental Disability</u>	<u>Canceled</u>
3,836	237	212	23	199	562	4	27
	<u>Maximum</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>	<u>Option 4</u>		
	2,615	1,163	819	449	27		

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

NOTES TO FINANCIAL STATEMENTS—Continued

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

Vesting and Benefit Provisions: The vesting and benefit provisions are set by N.J.S.A. 43:15A. The System provides retirement as well as death and disability benefits. All benefits vest after 8 to 10 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of final average salary for each year of service credit. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after receiving 25 years of service credit or they may elect deferred retirement after achieving 10 years of service in which case benefits would begin the first day of the month after the member attains normal retirement age.

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

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

Information about the System, including vesting and benefit provisions, is published in pamphlet format. Copies of these pamphlets are available from the State of New Jersey Division of Pensions.

NOTE C—PENSION BENEFIT OBLIGATION

The following "pension benefit obligation" is the actuarial present value of credited projected benefits. It is a standardized disclosure measure representing the present value of pension benefits adjusted for the effects of projected salary increases estimated to be payable in the

NOTES TO FINANCIAL STATEMENTS—Continued

future based on employee service credit to date. This measure is independent of the actuarial funding method used to determine employer contributions to the system discussed in Note D.

The pension benefit obligation was determined as part of the annual actuarial valuation dated March 31, 1988. The liability was determined as of March 31 and projected forward to June 30, 1988 allowing for increases in benefits and variations in the population during the three-month period.

The projected pension benefit obligation as of June 30, 1988 was:

Pension benefit obligations:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$2,138,416,000
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Current employees:

Accumulated employees contributions with interest	1,603,692,000
Employer-financed vested	2,942,174,000
Employer-financed nonvested	<u>296,413,000</u>

Total pension benefit obligation	6,980,695,000
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Net assets (fund balance) available for benefits at book value (market value of \$7,690,831,776)	<u>6,601,646,000</u>
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Unfunded pension benefit obligation	<u>\$ 379,049,000</u>
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The above liability was calculated based on the actuarial assumptions of a) rate of return on investments of 7-3/4% compounded annually as compared to 7-1/4% used in the prior year valuation; b) salary increases ranging from 6.00% at age 25 to 2.86% at age 69 which includes inflation, merit and productivity; c) assets valued at cost or amortized cost; and d) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary.

The pension benefit obligation increased \$603,700,000 due to the change in rate of return on investments actuarial assumption.

NOTE D—CONTRIBUTION POLICY

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members, employers, and the State. Member contribution rates range from 4.96% to 9.91% of salary based on the 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 57, P.L. 1970, the

NOTES TO FINANCIAL STATEMENTS—Continued

contribution policy requires State-related employers and the State to make a normal contribution and a past service contribution as determined by a qualified actuary. The normal contribution includes an amount that is required to fund non-contributory death benefits. The System's actuary uses the "projected benefit method" to determine normal costs which were determined to be \$356,123,463 as of March 31, 1988, the date of the most recent actuarial valuation. As of the same date, the actuary computed that, utilizing the present method of funding, the unfunded actuarial liability of the employers and the State for prior service was \$195,082,025. This amount is to be funded in approximately 23 years.

Total pension contributions for the year ended June 30, 1989 were \$564,923,865 (\$351,766,381 from employers and \$213,157,484 from members, or 7.1% and 4.3%, respectively, of annual covered compensation) including \$332,038,093 representing the recommended normal contribution amount and \$16,195,605 relating to the accrued liability funding. The State appropriation for the year ended June 30, 1989, paid July 1, 1988, is based on the 1987 actuarial valuation and the State-related employer contributions are accrued on June 30, 1989, based on the most recent 1988 actuarial valuation.

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

The contributing employers as of March 31, 1988 were comprised of the following:

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

NOTE E—DESCRIPTION OF FUND BALANCES

Members' Annuity Savings Fund and Accumulative Interest:

The Members' Annuity Savings Fund and Accumulative Interest (ASF) is credited with all contributions made by active members of the System. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer which was 6-1/2% for the years ended June 30, 1989 and 1988. After three years of participation, withdrawing members receive interest at an annual rate of 2% of their

NOTES TO FINANCIAL STATEMENTS—Continued

accumulative contribution 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 benefit payments.

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 and other employers. Additionally, interest earnings, 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 the group insurance made by The Prudential Insurance Company of America to provide noncontributory cash death benefits are made from the Contingent Reserve Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits are paid. Upon retirement of a member, accumulated contributions together with accumulated regular interest are transferred to the Retirement Reserve Fund from the ASF. Any additional reserves needed for the retirement benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (6-1/2% for 1989 and 1988) is credited to the Retirement Reserve Fund. Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Contingent Reserve Fund upon advice of the actuary.

Special Reserve Fund: The Special Reserve Fund is the Fund to which any excess interest earnings and gains from sale and maturity of investments are transferred and against which any losses from the sale of securities are charged. The maximum limit on the accumulation of this account is 1% of the book value of the investments allocated to the System, excluding cash management fund investments allocated to the Contributory Group Insurance Premium Fund which amounted to \$32,658,849 at June 30, 1989. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund: The Contributory

NOTES TO FINANCIAL STATEMENTS—Continued

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 their first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for this coverage is .55 of 1% of salary.

NOTE F—INVESTMENTS

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

The purchase, sale, receipt of income and other transactions affecting investments are governed by custodial agreements between the System through the State Treasurer and custodian banks as agents for the System. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial 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 System at June 30, 1989. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Trust Department or agent in the System'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 System's name. As of June 30, 1989, all investments held by the System are classified as Category 1.

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

Securities not maintained by the Federal Reserve Banks or DTC are

NOTES TO FINANCIAL STATEMENTS—Continued

in the name of a designated nominee representing the securities of a particular state fund which establishes the state fund's unconditional right to the securities.

A summary of investment securities as of June 30, 1989 and the approximate market values follows:

	Book Value	Market Value
	(in 000's)	
Bonds:		
U.S. and Municipal		
Government bonds	\$ 5,696	\$ 5,925
Industrial bonds	3,144	3,105
Telephone bonds	21,154	19,299
Gas, electric, and water bonds	50,176	46,397
Finance companies— senior debt	499	457
Railroad equipment obligations	734	704
Other	17,017	16,533
Subtotal	<u>98,420</u>	<u>92,420</u>
Common Pension Fund A	\$2,724,740	\$3,754,582
Common Pension Fund B	2,716,692	2,836,299
State of New Jersey Cash Management Fund	405,006	405,006
Mortgages	<u>1,115,352</u>	<u>1,131,765</u>
TOTAL	<u>\$7,060,210</u>	<u>\$8,220,072</u>

Investments in excess of 5% of net assets are:

	June 30	
	1989	1988
	(in 000's)	
Common Pension Fund A	\$2,724,740	\$2,560,411
Common Pension Fund B	2,716,692	2,495,529
State of New Jersey Cash Management Fund	405,006	

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE G—INCOME TAX STATUS

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

NOTE H—HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 25 and 26.

ACTUARIAL EVALUATION

The information given below is taken from the valuation of March 31, 1988, showing the system's contributions (assets) and present and contingent benefits (liabilities) as of that date.

ASSETS

Present assets of system creditable to:

Retirement Reserve Fund:

(Includes minimum Pension Fund)

Credited to fund	\$2,013,291,794	
Add accrued interest creditable	95,083,863	
Add reserve transferable from Contingent Reserve Fund	<u>39,412,065</u>	\$ 2,147,787,722

Annuity Savings Fund:

Credited to fund	\$1,503,349,056	
Add accrued interest creditable	<u>58,085,522</u>	1,561,434,578

Contingent Reserve Fund:

Credited to fund	\$2,434,149,855	
Add accrued interest creditable	114,166,474	
Add excess interest earnings transferable from Special Reserve Fund	191,515,390	
Deduct reserve transferable to Retirement Reserve Fund	<u>39,412,065</u>	2,700,419,654

Special Reserve Fund:

Credited to fund	\$ 209,440,532	
Add excess interest earnings creditable	42,841,423	

Deduct excess interest earnings transferable to Contingent Reserve Fund	191,515,390	60,766,565
Other Non-System Funds:		
Pension Adjustment Fund	\$ 235,612	
Contributory Group Insurance Premium Fund	32,325,386	32,560,998
Total Present Assets		<u>\$ 6,502,969,517</u>
Present value of prospective contributions of members to be made to Annuity Savings Fund	\$1,857,859,126	
Present value of prospective contributions payable by the state and local employers to the Contingent Reserve Fund as follows:		
Future normal contributions	3,743,795,423	
Future accrued liability contributions	195,082,025	
Total Prospective Assets		<u>5,796,736,574</u>
<u>TOTAL ASSETS</u>		<u>\$12,299,706,091</u>

LIABILITIES

Present value of benefits payable on account of beneficiaries or their dependents now drawing allowance from the Retirement Reserve Fund		\$ 2,147,787,722
Present value of benefits payable from contributions to the Annuity Savings Fund and the Contingent Reserve Funds:		
Service retirement allowance including early retirement and vesting benefits	\$8,298,198,233	
Ordinary disability retirement allowances	313,633,133	
Accidental disability retirement allowances	32,926,990	
Ordinary death benefits	842,942,821	
Accidental death benefits	4,547,052	

Return of members' contributions upon withdrawal before retirement	<u>627,109,142</u>	10,119,357,371
Offsetting liability equal to non-system funds		<u>32,560,998</u>
TOTAL LIABILITIES		<u><u>\$12,299,706,091</u></u>

CONTRIBUTORY INSURANCE

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

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

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

The Special Reserve earned interest at the rate of 8.5 percent for the portion of the reserve held prior to January 1, 1988. For the funds accumulated after 12/31/87, the reserve earned interest at a rate of 7.75% through 12/31/88 and 7.5% as of 1/1/89.

FUNDS ON DEPOSIT

	Balance <u>6/30/89</u>	Balance <u>6/30/88</u>
Dividend Accumulation	\$ 0	\$ 0
Advance Premium	0	0
Special Reserve	500,442	464,442

**REPORT OF INDEPENDENT AUDITORS ON
REQUIRED SUPPLEMENTARY INFORMATION**

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

The analysis of funding progress and revenues by source and expenses by type of the State of New Jersey Public Employees' Retirement System are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

Princeton, New Jersey
October 20, 1989

**REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS**

(in millions)

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

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

Plan Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
	Net Assets Available For Benefits	Pension Benefit Obligation	Percentage Funded (1) ÷ (2)	Unfunded Pension Benefit Obligation (2) - (1)	Annual Covered Payroll	Unfunded Pension Obligation As A Percentage Of Covered Payroll (4) ÷ (5)
1986	\$4,264.0	\$4,180.2	102.0%	\$(83.8)	\$3,670.1	0 %
1987	5,000.7	5,379.2	93.0	378.5	4,097.9	9.2
1988	5,823.5	6,094.0	95.6	270.5	4,485.0	6.0
1989	6,601.7	6,980.7	94.6	379.0	4,936.1	7.7

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

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

**REQUIRED SUPPLEMENTARY INFORMATION
REVENUES BY SOURCE AND EXPENSES BY TYPE
STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Revenues By Source

Plan Fiscal Year	Employer Contributions						Investment Revenue	Total
	Member Contributions	State	Percentage Of Annual Covered Compensation	Local	Percentage Of Annual Covered Compensation			
1980	\$ 89,216,557	\$ 49,319,091	2.37%	\$ 87,615,417	4.21%	\$142,502,124	\$ 368,653,189	
1981	100,533,913	64,109,079	2.76	93,505,399	4.03	174,310,046	432,458,437	
1982	120,462,618	68,199,660	2.64	115,314,112	4.47	222,273,185	526,249,575	
1983	125,466,588	93,017,310	3.20	130,450,397	4.49	242,440,484	591,374,779	
1984	133,854,283	105,579,827	3.34	142,728,211	4.51	291,481,165	673,643,486	
1985	143,378,929	111,522,902	3.33	164,907,459	4.92	336,205,621	756,014,911	
1986	163,182,225	111,995,151	3.05	165,297,236	4.50	411,972,803	852,447,415	
1987	182,131,022	124,204,570	3.03	172,276,217	4.20	619,045,600	1,097,657,409	
1988	199,595,206	137,200,192	3.06	171,467,943	3.82	599,733,718	1,107,997,059	
1989	213,157,484	145,538,020	3.19	206,228,362	4.52	619,950,092	1,184,873,958	

Expenses By Type

Plan Fiscal Year	Benefits			Transfers To Other Retirement Systems	Total
	Retirement	Other	Withdrawals		
1980	\$ 94,503,438		\$19,208,843	\$ 990,573	\$114,702,854
1981	106,848,520		19,666,224	2,412,408	128,927,152
1982	121,239,874		21,353,016	2,956,873	145,549,763
1983	136,718,406		18,390,739	3,322,167	158,431,312
1984	156,136,932	\$22,608,231	21,266,155	6,774,381	206,785,699
1985	176,393,956	26,162,303	25,384,001	6,134,326	234,074,586
1986	196,568,346	28,946,313	27,761,760	4,140,456	257,416,875
1987	216,983,863	26,348,897	29,761,617	34,325,293	307,419,670
1988	242,959,969	34,179,691	33,116,926	16,528,404	326,784,990
1989	272,126,110	35,684,551	39,603,373	8,968,462	356,382,496

Contributions were made in accordance with actuarially determined contribution requirements.

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Public Employees' Retirement System

State of New Jersey

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