TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

1997 ANNUAL REPORT

BS-0314-0698

DEPARTMENT OF
THE TREASURY
James A. DiEleuterio, Jr., *Treasurer*

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

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

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 1997 Annual Report in accordance with the provisions of N.J.S.A. 18A:66-59.

Respectfully submitted,

HARRY BALDWIN
Chairperson

SIGNIFICANT LEGISLATION

CHAPTER 63, PUBLIC LAWS OF 1997

restores the staggered terms for members of the board of trustees of the Teachers' Pension and Annuity Fund who are elected from among the active or retired members of the retirement system. The terms of those members were originally staggered and filled only for the unexpired term, but the provision for filling vacancies for the unexpired term was eliminated in 1971. Several years ago there was a midterm vacancy which resulted in two elected members standing for election at the same time and serving concurrent terms. This creates the potential for instability and a lack of continuity among the elected members of the board. Under this bill, the requirement for filling vacancies for the unexpired term is restored, and specific terms for the next three holders of the elected positions are established. Thereafter, one member will be elected each year for a three-year term.

This law was approved on April 7, 1997.

CHAPTER 113, PUBLIC LAWS OF 1997

codifies administrative procedures that conform the Teachers' Pension and Annuity Fund, the Alternate Benefit Program, the Judicial Retirement System, the Prison Officers' Pension Fund, the Public Employees' Retirement System, the Consolidated Police and Firemen's Pension Fund, the Police and Firemen's Retirement System, and the State Police Retirement System to federal Internal Revenue Code (IRC) requirements of federal tax "qualified" pension plans.

This law provides, in accordance with IRC section 401(a)(2), that at no time prior to the satisfaction of all liabilities with respect to members and their beneficiaries shall any part of the corpus or income of the respective retirement systems be used for or diverted to purposes other than for the exclusive benefit of the members or their beneficiaries. The law provides that the contributions and benefits payable under the retirement systems will be subject to the benefits and contributions limits of IRC section 415.

It provides that the annual compensation on which employer and employee contributions and benefits may be based under the State-administered retirement systems will not exceed the annual compensation limit set by IRC section 401(a)(17). The current federal limit is $160,000 annually. The limit will not apply to a member of the systems enrolled prior to July 1, 1996 if that employee's employer certifies to the Director of the Division of Pensions and Benefits prior to July 1, 1997, that the employer will pay the additional cost for not applying the limit to the member.

The law also provides that a vested member of a retirement system or fund listed in the bill will have nonforfeitable right to receive benefits as provided under the laws governing the retirement system or fund upon the attainment of five years of service credit in the system or fund or on the date of the enactment of the bill, whichever is later. However, this provision of the legislation will not apply to post-retirement medical benefits which are provided pursuant to law. It also requires the State to make an annual normal contribution and an annual unfunded accrued liability contribution to each system and fund except under two circumstances set forth in the bill.

This legislation will not preclude the forfeiture, suspension or reduction of benefits for dishonorable service. In addition, the right to receive benefits will not be deemed to: (1) limit the right of the State to alter, modify or amend the retirement systems, other than the above-mentioned benefits, for members who have attained 10 years of service, or (2) create in any member a right in the corpus or management of a retirement system.

This law was approved on June 5, 1997.

CHAPTER 114, PUBLIC LAWS OF 1997

authorizes the New Jersey Economic Development Authority to issue bonds to provide funds for paying the unfunded accrued pension liability of the State in each State pension fund.

This law was approved on June 5, 1997.

CHAPTER 115, PUBLIC LAWS OF 1997

changes the value of the assets of the retirement systems to "full-market" value of assets, for the State and participating local governments, as of the valuation reports applicable to FY 1998. This one-time accounting change from the current "market-related" value of assets (20% of full-market) to "full-market" immediately recognizes recent capital gains instead of recognizing those gains over five years, resulting in an increased value of the accumulated assets. For valuation reports applicable to FY 1999 and thereafter, the actuarial value of assets will revert to "market-related" value of assets.

This law provides for a reduction in the normal contributions of the State to the systems from excess assets for FY's 1997 and 1998, and local employers for FY 1998, and, thereafter, authorizes the State Treasurer to reduce the normal contributions of State and local employers to the systems, to the extent possible, from up to 100% of excess assets through FY 2002, and on a declining maximum percentage of excess thereafter. In addition, it permits the State to pay its unfunded accrued liabilities under the various pension systems from any source of funds, including the proceeds of pension obligation bonds (POBs) to be issued by the New Jersey Economic Development Authority. Any unfunded pension liabilities generated in future periods shall be amortized over a maximum period of 30 years.

It provides that in the case of any General Fund savings resulting from any excess assets allocated to the State in the various retirement systems for the valuation period ending in March or June 1996 (or June 1995 with respect to the Police and Firemen's Retirement System), the General Fund balances that would have been paid to the retirement systems for normal contributions shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke.

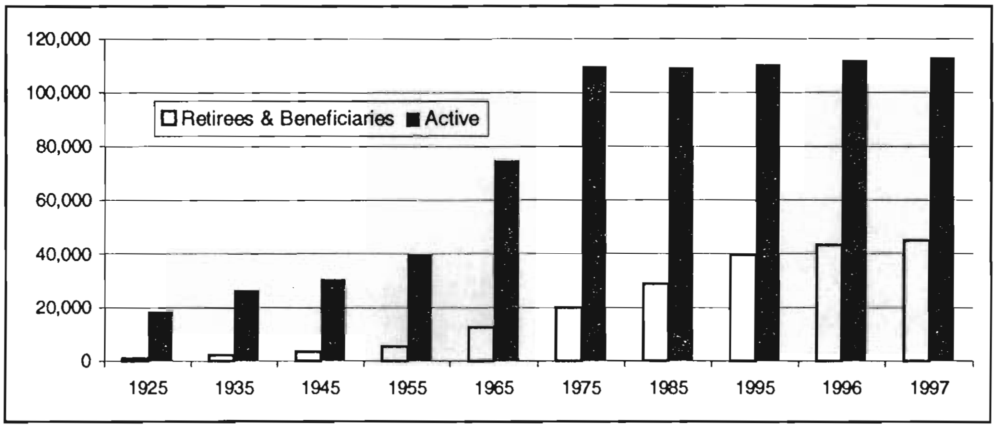
It also provides for a reduction from excess assets, during calendar years 1998 and 1999, of the contributions by employees of the State and local employers in the PERS and the TPAF representing 1/2 of 1%, and for a similar reduction in contributions thereafter under certain circumstances.

This law was approved on June 5, 1997.

MEMBERSHIP

- As of June 30, 1997, the active membership of the system totaled 112,869*.
- There were 44,953 retirees and beneficiaries receiving annual pensions totaling $881,863,594. (This includes benefits paid under the provisions of the Pension Adjustment Act).
- Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of $49,878,661.
- The system's assets totaled $24,746,484,756 at the close of the fiscal year 1997.

**Total Inactive Membership as of June 30, 1997 was 8,691.*



MEMBERSHIP ACTIVITY

During fiscal year 1997, 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.

- **LOANS** - 33,220 members applied for loans on their accounts. The total loans receivable as of June 30, 1997 is $196,643,201.
- **RETIREMENT** - 2,907 members retired under the following retirement types:

TYPE OF RETIREMENT

Service	1,212
Early	1,104
Deferred	125
Ordinary Disability	179
Accidental Disability	5
Veteran	282
TOTAL	2,907

OPTION SELECTION

Maximum	1,203
Option 1	508
Option 2	539
Option 3	628
Option 4	29
TOTAL	2,907

KPMG PEAT MARWICK
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1997, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1997, and the changes in its plan net assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in the notes to the financial statements, the State of New Jersey Teachers' Pension and Annuity Fund adopted provisions of Governmental Accounting Standards Board Statements No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans" and No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans" in 1997.

Also, as discussed in the notes to the financial statements, during the year ended June 30, 1997, legislation was enacted authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. This enactment significantly increased employer contributions for the year ended June 30, 1997.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in plan net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the State of New Jersey Teachers' Pension and Annuity Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The supplementary information included in the schedule of funding progress and schedule of employer contribution are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

November 7, 1997

/s/ KPMG Peat Marwick

State of New Jersey
Teachers' Pension and Annuity Fund

Statement of Plan Net Assets

June 30, 1997

	PENSION FUND	POST-RETIREMENT HEALTH FUND	TOTAL
ASSETS			
Investments, at fair value			
Cash Management Fund	$ 2,124,020,796	230,078,808	2,354,099,604
Bonds	205,864,239	—	205,864,239
Common Pension Fund A	11,573,999,117	—	11,573,999,117
Common Pension Fund B	4,983,085,216	—	4,983,085,216
Common Pension Fund D	4,245,976,164	—	4,245,976,164
Mortgages	720,115,412	—	720,115,412
Total investments	23,853,060,944	230,078,808	24,083,139,752
Receivables			
Contributions			
Members	68,628,037	—	68,628,037
Employers	254,866,291	—	254,866,291
Accrued interest and dividends	141,288,262	—	141,288,262
Members' loans	196,643,201	—	196,643,201
Other	1,919,213	—	1,919,213
Total receivables	663,345,004	—	663,345,004
Total assets	24,516,405,948	230,078,808	24,746,484,756
LIABILITIES			
Accounts payable and accrued expenses	8,366,599	—	8,366,599
Retirement benefits payable	75,340,262	—	75,340,262
Death benefits payable	1,566,676	—	1,566,676
Cash overdraft	5,972,720	—	5,972,720
Total liabilities	91,246,257	—	91,246,257
Net assets held in trust for pension and post-retirement health benefits	$ 24,425,159,691	230,078,808	24,655,238,499

See accompanying notes to financial statements.

State of New Jersey
Teachers' Pension and Annuity Fund

Statements of Changes in Plan Net Assets

Years ended June 30, 1997

	PENSION FUND	POST-RETIREMENT HEALTH FUND	TOTAL
ADDITIONS			
Contributions			
Members	$ 327,980,876	—	327,980,876
Employers	1,619,542,148	127,459,410	1,747,001,558
Other	7,395	—	7,395
Total contributions	1,947,530,419	127,459,410	2,074,989,829
Investment Income			
Net appreciation in fair value of investments	3,195,239,330	—	3,195,239,330
Interest	568,053,281	17,408,303	585,461,584
Dividends	197,390,554	—	197,390,554
	3,960,683,165	17,408,303	3,978,091,468
Less investment expense	2,009,347	—	2,009,347
Net investment income	3,958,673,818	17,408,303	3,976,082,121
Total additions	5,906,204,237	144,867,713	6,051,071,950
DEDUCTIONS			
Benefit payments	932,378,725	113,740,941	1,046,119,666
Refunds of contributions	16,617,620	—	16,617,620
Administrative expenses	7,586,486	—	7,586,486
Total deductions	956,582,831	113,740,941	1,070,323,772
Net increase (decrease) before cumulative effect of change in accounting method	4,949,621,406	31,126,772	4,980,748,178
Cumulative effect of change in accounting method (note 2)	4,559,102,179	—	4,559,102,179
Net increase	9,508,723,585	31,126,772	9,539,850,357
Net assets held in trust for pension and post-retirement health benefits:			
Beginning of year	14,916,436,106	198,952,036	15,115,388,142
End of year	$ 24,425,159,691	230,078,808	24,655,238,499

See accompanying notes to financial statements.

(1) Description of the Fund

The Teachers' Pension and Annuity Fund (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 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, death, disability and medical benefits to certain qualified 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 primarily responsible for the administration of the Fund.

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

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 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 (COLA) after 24 months of retirement.

Membership

Membership in the Fund consisted of the following at March 31, 1996, the date of the most recent actuarial valuation:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	45,102
Active members:	
Vested	74,252
Nonvested	43,414
Total active members	117,666
Total	162,768

(2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Fund are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

The Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans" and No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered By Defined Benefit Pension Plans" in 1997. GASB Statement No. 25 requires that plan assets, plan liabilities and plan net assets be recorded at fair value. Prior to the adoption of GASB Statement No. 25, investments were recorded at cost or amortized cost. The cumulative effect of this change in accounting method, as of June 30, 1997, of $4,559,102,179, is reported in the accompanying Statement of Changes in Plan Net Assets. The effects of the adoption of GASB Statement No. 26 were immaterial to the financial statements of the State of New Jersey Teachers' Pension and Annuity Fund.

Investment Valuation

Investments are reported at fair value. Short-term investments (State of New Jersey Cash Management Funds) are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

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 State of New Jersey Division of Investment administers three common pension funds which are utilized by the Fund. A brief description of each common pension fund is as follows:

Common Pension Fund A - The operations of the Common Pension Fund are governed by the provisions of Article 62 of the State of New Jersey Investment Council regulations for the purpose of investing in corporate common stocks, securities convertible into corporate common stocks or covered call options.

Common Pension Fund B - The operations of the Common Pension Fund are governed by the provisions of Article 63 of the State of New Jersey Investment Council regulations for the purpose of investing in fixed income and debt securities.

Common Pension Fund D - The operations of the Common Pension Fund are governed by the provisions of Article 67 of the State of New Jersey Investment Council regulations for the purpose of investing in international debt and equity securities, currencies, currency futures, and options.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Funds, Common Pension Fund A, Common Pension Fund B and Common Pension Fund D. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625.

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 institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of 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. As of June 30, 1997, 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.

Member Loans

Members can borrow up to 50% of their accumulated member contributions. To obtain a loan, a member must have at least three years of service credit in the Fund. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4%. Generally, outstanding loans must be satisfied before benefits are paid from the Fund.

Administrative Expenses

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund to the State of New Jersey, Department of the Treasury, and are included in the accompanying statement of changes in plan net assets.

Legislative Changes

During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority (the "Authority") to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. On June 30, 1997, the Authority issued bonds pursuant to this legislation and $1,547,688,633 from the proceeds of the bonds were deposited into the Fund's investment accounts. Such proceeds are included as employer contributions in the accompanying statement of changes in plan net assets. For the year ended June

30, 1997, the employer contributions exceeded the annual required contributions as a result of this enactment.

As a result of additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997), the asset valuation method was changed from market related value to full-market value for the valuation report dated March 31, 1996. This legislation also contains a provision to reduce the employee contribution rate by 1/2 of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provides that the State of New Jersey may reduce its normal contributions to the Fund based on the revaluation of assets, and fund such contributions from excess assets not needed to cover the costs of all accrued benefits. In addition, the legislation requires that the normal contribution to be made to the Fund for the year ended June 30, 1997 shall be no less than $54,000,000 excluding the post-retirement medical contribution.

Chapters 114 and 115 also reduced the State of New Jersey appropriation payment to the Fund in the current fiscal period to $54,000,000, the minimum contribution under Chapter 115, plus post-retirement medical premiums of $127,459,410. The normal contribution for basic benefits and active COLA benefits above the $54,000,000 minimum payment in the amount of $58,000,882 was funded by excess valuation assets.

(3) Contribution Policy

The contribution policy is set by N.J.S.A. 18:66 and Chapter 62, P.L. 1994 and Chapter 115, P.L. 1997, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate of 5% of base salary. Employers are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits.

(4) Reserves

This Fund maintains the following legally required reserves, which are fully funded:

Members' Annuity Savings Fund and Accumulative Interest
The Members' Annuity Savings Fund is credited with all contributions made by active members of the Fund. Interest earned on member contributions is credited to the Accumulated Interest Fund. The annual rate of interest on member contributions, as required by Chapter 62, P.L. 1994, is 8.75%.

Contingent Reserve Fund
The Contingent Reserve Fund is credited with the contributions of employers. Additionally, interest earnings, after crediting the Accumulated Interest Fund, Retirement Reserve Fund and Special Reserve Fund, are credited to this account.

Retirement Reserve Fund
The Retirement Reserve Fund is the account from which all retirement benefits, including cost-of-living benefits and medical benefits for certain retirees, are paid. Upon retirement of a member, accumulated contributions, together with accumulated regular interest, are transferred to the Retirement Reserve Fund from the Annuity Savings Fund. Any additional reserves needed for the retirement and cost-of-living benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.75% for 1997) is credited to the Retirement Reserve Fund.

Special Reserve Fund
The Special Reserve Fund is the fund to which excess interest earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are

charged. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the System, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund which amounted to $62,126,942 as of June 30, 1997. 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 group insurance 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 active members is 0.4 of 1% of salary, as defined.

5) 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.

State of New Jersey
Teachers' Pension and Annuity Fund

Required Supplementary Information

Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENRTAGE OF COVERED PAYROLL ((b - a) / c)
March 31, 1995	$16,942,637,259	18,410,393,538	1,467,756,279	92.0%	$ 5,358,893,876	27.4 %
March 31, 1996	20,843,247,418	19,828,428,735	(1,014,818,683)	105.1%	5,594,150,132	(18.1)%

State of New Jersey
Teachers' Pension and Annuity Fund

Required Supplementary Information, Continued

Schedule of Funding Progress — Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent March 31, 1996 actuarial valuation include the following:

Actuarial cost method	Projected unit credit
Asset valuation method	Market value
Amortization method	Level percent, closed
Payroll growth rate for amortization	5.00%
Remaining amortization period	36 years
Actuarial assumptions:	
Interest rate	8.75%
Salary range	5.95%
Cost-of-living adjustments	60% of maximum of the CPI increase and 4.0%

The asset valuation method was changed from market related value to full-market value for the valuation report dated March 31, 1996.

The actuarial assumptions used in the valuation were developed on the basis of a three year experience investigation for the period ended March 31, 1991. The additional cost attributable to the revised assumptions developed from the 1991 experience investigation is being phased in over a five year period beginning with the March 31, 1993 valuation. The current valuation reflects an 80% recognition of these assumption changes.

Annual covered payroll is an estimate based upon annualizing one quarter's actual payroll.

Due to the recognition of the bond proceeds and the change in the asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated except for the unfunded liability for local early retirement incentive benefits. As of March 31, 1996, the Fund has an accrued liability surplus of $1,014,818,683 for basic benefits and cost-of-living adjustments. Prior to Chapters 114 and 115, the Fund had an unfunded liability of $1,559,319,213 for such benefits.

State of New Jersey
Teachers' Pension and Annuity Fund

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
1997	$ 372,060,546	1,601,688,633	430.5%

Note to Schedule

For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

Schedule 3

State of New Jersey
Teachers' Pension and Annuity Fund

Schedule of Changes in Plan Net Assets by Fund

Year ended June 30, 1997

	MEMBERS' ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	SPECIAL RESERVE FUND	CONTRIBUTORY GROUP INSURANCE PREMIUM RESERVE FUND	POST-RETIREMENT MEDICAL FUND	OTHER	TOTAL
Additions								
Contributions								
Members	$ 305,773,936	—	—	—	22,206,940	—	—	327,980,876
Employers	—	1,619,542,148	—	—	—	127,459,410	—	1,747,001,558
Other	—	—	—	—	—	—	7,395	7,395
Total contributions	305,773,936	1,619,542,148	—	—	22,206,940	127,459,410	7,395	2,074,989,829
Distribution of net investment income	275,248,148	2,874,335,638	714,030,657	91,509,601	3,549,774	17,408,303	—	3,976,082,121
Total additions	581,022,084	4,493,877,786	714,030,657	91,509,601	25,756,714	144,867,713	7,395	6,051,071,950
Deductions:								
Benefit payments	—	24,604,527	881,856,199	—	25,910,604	113,740,941	7,395	1,046,119,666
Refunds of contributions	16,617,620	—	—	—	—	—	—	16,617,620
Administrative expenses	—	7,586,486	—	—	—	—	—	7,586,486
Total deductions	16,617,620	32,191,013	881,856,199	—	25,910,604	113,740,941	7,395	1,070,323,772
Net increase (decrease) before transfers among reserves and cumulative effect of change in accounting method	564,404,464	4,461,686,773	(167,825,542)	91,509,601	(153,890)	31,126,772	—	4,980,748,178
Transfers among reserves:								
Retirements	(190,275,984)	(602,506,832)	792,782,816	—	—	—	—	—
Other	429,254	(256,009,066)	255,579,812	—	—	—	—	—
Net increase (decrease) before cumulative effect of change in accounting method	374,557,734	3,603,170,875	880,537,086	91,509,601	(153,890)	31,126,772	—	4,980,748,178
Cumulative effect of change in accounting method	—	4,558,657,070	—	—	445,109	—	—	4,559,102,179
Net increase	374,557,734	8,161,827,945	880,537,086	91,509,601	291,219	31,126,772	—	9,539,850,357
Net assets held in trust for pension benefits:								
Beginning of year	3,495,617,962	3,312,810,244	7,903,093,906	143,371,410	61,542,584	198,952,036	—	15,115,388,142
End of year	$3,870,175,696	11,474,638,189	8,783,630,992	234,881,011	61,833,803	230,078,808	—	24,655,238,499

Contacting the Division of Pensions and Benefits

The Division of Pensions and Benefits **INTERNET HOME PAGE** address (URL) is .... **http://www.state.nj.us/treasury/pensions**

You can send **E-mail** to the Division of Pensions and Benefits through our **HOME PAGE** or directly to .... **NJ-pensions@tre.state.nj.us**

You can **CONTACT CLIENT SERVICES** of the Division of Pensions and Benefits at .... **(609) 292-7524**
on Monday through Friday
from 9:00 am until 4:00 pm

The telephone number for individuals who are hearing impaired and use a **TELEPCOMMUNICATION DEVICE FOR THE DEAF (TDD)** is..................... **(609) 292-7718**

You can **WRITE** to the Division of Pensions and Benefits at .... **Division of Pensions and Benefits**
P.O. Box 295
Trenton, NJ 08625-0295

You can **VISIT** the Division of Pensions and Benefits, without appointment, on the third floor at .... **50 West State Street**
in downtown Trenton, New Jersey
on Monday through Friday
from 8:40 am until 4:00 pm.

We are on the corner of West State and Barracks Streets, a block east of the State House. **DIRECTIONS** to our location can be downloaded from our Internet web site or obtained by calling our .... **Benefit Information Library**
at (609) 984-7109
seven days a week, 24 hours a day

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