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POLICE AND FIREMEN'S
RETIREMENT SYSTEM
OF NEW JERSEY



1991
Annual Report

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DEPARTMENT OF THE TREASURY

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DIVISION OF PENSIONS

Margaret M. McMahon, *Director*

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

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NEW JERSEY DIVISION OF PENSIONS

50 West State Street • Trenton, New Jersey 08625-0295

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AT RENTON

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

Dear Sir:

**The Board of Trustees of the Police and
Firemen's Retirement System is pleased to
present the Thirty-Seventh Annual Report in
compliance with the provisions of N.J.S.A.
43:16A-13.**

Respectfully submitted,

**SUSAN KOSAKOWSKI
Chairperson**

SIGNIFICANT LEGISLATION

CHAPTER 57, LAWS OF 1991 provides that a Police and Firemen's Retirement System member who is employed by a municipal police department and is assigned by that department to another municipal police department shall be eligible for accidental disability and accidental death benefits while performing the assigned duties.

This law was approved and became effective March 13, 1991.

CHAPTER 136, LAWS OF 1991 changes the due date from March 31 to July regarding the employers' liability payments to the Police and Firemen's Retirement System.

This law was approved on May 10, 1991 to become effective for payments within the calendar year 1991 and thereafter.

CHAPTER 138, LAWS OF 1991 expands the rights of Public Employees' Retirement System, Teachers' Pension and Annuity Fund and Police and Firemen's Retirement System members to purchase service credit for certain temporary service and establishes uniform conditions for the purchase of all service credit. Chapter 138 permits the purchase of credit concerning temporary service (including certain substitute teaching in the Teachers' Pension and Annuity Fund) that immediately preceded permanent employment with the same employer. The cost of such temporary service purchases will be based upon the member's current age and either current salary or the highest salary for which contributions were made during any fiscal year of membership, whichever is greater. An actuarial factor will also be utilized in the computation of the purchase cost.

Until April 1, 1992, an eligible member could have purchased any portion of eligible temporary service. Since that date, the member is required to purchase the entire period of eligible temporary service.

This law was approved and became effective May 20, 1991.

CHAPTER 153, LAWS OF 1991 permits Public Employees' Retirement System, Teachers' Pension and Annuity Fund and Police and Firemen's Retirement System members to purchase service credit for certain civilian employment or military service with the United States government or other states. In order to be eligible for such purchase, the civilian service must be the type of public employment that would be eligible for credit in the New Jersey State-administered retirement systems if the service was rendered in New Jersey. The member's cost will be computed by utilizing an actuarial factor and neither the state nor the employer will be liable for any costs associated with the financing of the pension

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adjustment or health care benefits for retirees when purchasing such service credit.

This law was approved on June 6, 1991 and became effective on July 1, 1991.

**PARTICIPATING COUNTIES, MUNICIPALITIES,
FIRE DISTRICTS AND COMMISSIONS** (listed by county)

ATLANTIC COUNTY—Absecon City, Brigantine, Buena Boro, City of Egg Harbor, Egg Harbor Township, Galloway Township, Hamilton Township, Hammonton, Linwood, Longport, Margate City, Northfield, Pleasantville, Somers Point, Ventnor City.

BERGEN COUNTY—Allendale, Alpine, Bergenfield, Bogota, Carlstadt, Cliffside Park, Closter, Cresskill, Demarest, Dumont, East Paterson, East Rutherford, Edgewater, Emerson, Englewood, Englewood Cliffs, Fair Lawn, Fairview, Fort Lee, Franklin Lakes, Garfield, Glen Rock, Hackensack, Harrington Park, Hasbrouck Heights, Haworth, Hillsdale, Ho-Ho-Kus, Leonia, Little Ferry, Lodi, Lyndhurst, Mahwah, Maywood, Midland Park, Montvale, Moonachie, New Milford, North Arlington, Northvale, Norwood, Oakland, Old Tappan, Oradell, Palisades Park, Ramsey, Ridgefield, Ridgefield Park, Ridgewood, River Edge, River Vale Township, Rochelle Park Township, Rutherford, Saddle River Boro, Saddle River Township, South Hackensack Township, Teaneck Township, Tenafly, Teterboro, Upper Saddle River, Waldwick, Wallington, Westwood, Woodbridge, Woodcliff Lakes, Wyckoff Township.

BURLINGTON COUNTY—Beverly, Bordentown, Bordentown Township, Burlington, Burlington Township, Cinnaminson Township, Delanco, East Hampton Township, Evesham Township, Florence Township, Lumberton Township, Maple Shade Township, Medford Township, Moorestown Township, Mount Holly Township, Mount Laurel Township, Palmyra, Riverside Township, Riverton, Willingboro.

CAMDEN COUNTY—Audubon, Audubon Park, Barrington, Bellmawr, Berlin, Berlin Township, Camden, Cherry Hill Fire Districts Nos. 2, 4, 5 and 6, Chesilhurst Borough, Collingswood, Delaware Township, Gloucester City, Gloucester Township, Haddon Township, Haddonfield, Haddon Heights, Magnolia Township, Merchantville, Mount Ephraim, Oaklyn, Pennsauken Township, Runnemede, Somerdale Borough, Stratford Borough, Voorhees Township, Waterford Township, Winslow Township, Woodlynne.

CAPE MAY COUNTY—Avalon Boro, Boro of Stone Harbor, Cape May City, Lower Township, Middle Township, North Wildwood, Ocean City, Sea Isle City, Wildwood, West Wildwood Boro.

CUMBERLAND COUNTY—Bridgeton, Greenwich Township, Landis Township, Millville, Vineland.

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ESSEX COUNTY—Belleville, Bloomfield, Caldwell Township, Cedar Grove, East Orange, Essex Fells, Glen Ridge, Irvington, Livingston, Maplewood Township, Millburn Township, Montclair, Newark, North Caldwell, Nutley, Orange, Roseland, South Orange, Verona, West Caldwell, West Orange.

GLOUCESTER COUNTY—East Greenwich Township, Elk Township, Franklin Township, Glassboro, Logan Township, Monroe Township, Paulsboro, Pitman, Township of Harrison, Washington Township, West Deptford, Westville, Woodbury, Woodbury Heights.

HUDSON COUNTY—Bayonne, East Newark, Guttenberg, Harrison, Hoboken, Jersey City, Kearny, North Bergen Township, Secaucus, Union City, Weehawken Township, West New York.

HUNTERDON COUNTY—Lebanon Township, Raritan Township.

MERCER COUNTY—East Windsor Township, Ewing Township, Hamilton Township, Hightstown, Lawrence Township, Princeton, Princeton Township, Trenton City, West Windsor Township.

MIDDLESEX COUNTY—Carteret, Dunellen, East Brunswick Township, Edison Township, Edison Township Fire District No. 1, Highland Park, Jamesburg, Metuchen, Middlesex, Milltown Boro, New Brunswick, North Brunswick Township, Old Bridge, Perth Amboy, Piscataway Township, Plainsboro Township, Raritan Township Fire District No. 3, Sayreville, South Amboy, South Brunswick Township, South Plainfield, South River, Spotswood, Woodbridge Fire District No. 1, Woodbridge Fire District No. 7, Woodbridge Township.

MONMOUTH COUNTY—Aberdeen Township, Allenhurst, Asbury Park, Atlantic Highlands, Avon-by-the-Sea, Belmar, Bradley Beach, Brielle, Deal, Eatontown, Englishtown, Fair Haven, Freehold, Freehold Township, Hazlet Township, Highlands, Holmdel Township, Howell Township, Interlaken, Keansburg, Keyport, Little Silver, Long Branch, Manalapan Township, Manasquan, Matawan, Middleton Township, Monmouth Beach Boro, Neptune City, Neptune Township, Ocean Township, Oceanport, Red Bank, Rumson, Sea Bright, Sea Girt, Shrewsbury, South Belmar, Spring Lake, Spring Lake Heights, Tinton Falls Borough, Wall Township, West Long Branch.

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MORRIS COUNTY—Boonton Township, Butler Borough, Chatham, Chatham Township, Chester Township, Denville, Dover, East Hanover, Florham Park, Hanover Township, Harding Township, Jefferson Township, Kinnelon Boro, Lincoln Park Borough, Mendham, Mendham Township, Mine Hill Township, Montville Township, Morristown, Morris Township, Morris Plains, Mount Olive Township, Mountain Lakes, Parsippany-Troy Hills, Passaic Township, Pequannock Township, Randolph Township, Rockaway Township, Roxbury Township, Washington Township, Wharton Borough.

OCEAN COUNTY—Bayhead Borough, Berkeley Township, Brick Township, Dover Township, Jackson Township, Lacey Township, Lakehurst, Lakewood Township, Mantoloking, Ocean Township, Point Pleasant Beach, Seaside Park Borough, Ship Bottom Borough.

PASSAIC COUNTY—Bloomingdale Borough, Clifton, Haledon, Hawthorne, Little Falls, North Haledon, Passaic, Paterson, Pompton Lakes, Prospect Park, Ringwood, Totowa, Wanaque, Wayne Township, West Milford Township, West Paterson.

SALEM COUNTY—Lower Penns Neck Township, Penns Grove, Salem, Upper Penns Neck Township, Woodstown Borough.

SOMERSET COUNTY—Bernards Township, Bernardsville, Bedminster, Bound Brook, Branchburg Township, Bridgewater Township, Hillsborough Township, Manville, North Plainfield, Peapack and Gladstone Borough, Raritan, Somerville, South Bound Brook, Warren Township, Watchung.

SUSSEX COUNTY—Byram Township, Hopatcong, Newton, Sparta.

UNION COUNTY—Berkeley Heights, Clark Township, Cranford, Elizabeth, Fanwood, Garwood, Hillside Township, Kenilworth, Linden, Moun-tainside, New Providence, Plainfield, Rahway, Roselle, Roselle Park, Scotch Plains Township, Springfield Township, Summit, Union Township, Westfield.

WARREN COUNTY—Alpha Borough, Hackettstown Town, Independence Township, Lopatcong Township, Mansfield Township, Phillipsburg, Pohatcong Township, Washington, Washington Township.

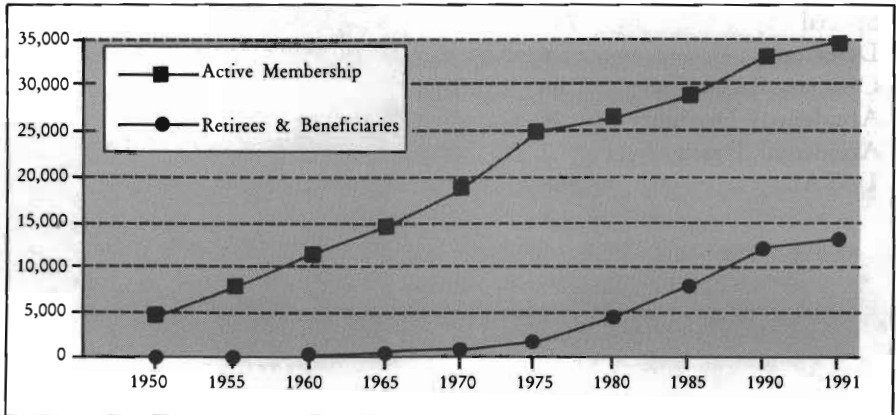
Waterfront Commission of New York Harbor.

New Jersey Departments and personnel defined by Chapter 156, P.L. 1973; County and County Parks under Chapter 92, P.L. 1973; and Chapters 302 and 303, P.L. 1975.

MEMBERSHIP

- As of June 30, 1991, the active contributing membership of the system totaled 34,758*.
- There were 13,125 retirees and beneficiaries receiving annual pensions totaling \$231,689,230. (This includes benefits paid under the provisions of the Pension Adjustment Act.)
- Beneficiaries of 272 deceased active and retired members received lump sum death benefits in the amount of \$10,479,951.
- The system's assets totaled \$5,259,164,658 at the close of fiscal year 1991.

*Total Inactive Membership as of June 30, 1991 was 1,330.



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MEMBERSHIP ACTIVITY

During fiscal year 1991, the following transactions were processed by the Division of Pensions on behalf of the membership of the Police and Firemen's Retirement System of New Jersey.

- **WITHDRAWAL**—506 members withdrew from the system.
- **LOANS**—17,053 members applied for and received loans on their accounts totaling \$75,245,420.
- **RETIREMENT**—868 members retired under the following retirement types:

TYPE OF RETIREMENT

Service	29
Special	737
Deferred	6
Ordinary Disability	66
Accidental Disability	28
Accidental Death	<u>2</u>
TOTAL	868

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Police and Firemen's Retirement System
of New Jersey

We have audited the accompanying component unit financial statements of the Police and Firemen's Retirement System of New Jersey (the "System") as of June 30, 1991 and 1990, 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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Police and Firemen's Retirement System of New Jersey at June 30, 1991 and 1990, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

We have also previously audited, in accordance with generally accepted auditing standards, the component unit financial statements of the System for the four years ended June 30, 1989 (none of which are presented herein); and we expressed unqualified opinions on those component unit financial statements.

In our opinion, the information set forth in the required supplementary information for each of the six years in the period ended June 30, 1991, appearing on pages 24 through 27 is fairly stated in all material respects, in relation to the component unit financial statements from which it has been derived, taken as a whole. With respect to such information for each of the four years in the period ended June 30, 1985, appearing on pages 26 and 27, 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 for each of the four years in the period ended June 30, 1985 and express no opinion on it.

Ernst & Young
October 22, 1991

BALANCE SHEETS

**Police and Firemen's Retirement System
of New Jersey**

	JUNE 30	
	1991	1990
ASSETS		
Investments, at cost:		
Bonds (market value of \$47,243,603 in 1991 and \$31,609,300 in 1990)	\$ 47,562,783	\$ 33,467,535
Common Pension Fund A (market value of \$2,789,348,427 in 1991 and \$2,538,788,149 in 1990)	1,859,904,090	1,709,189,409
Common Pension Fund B (market value of \$1,905,704,426 in 1991 and \$1,677,779,468 in 1990)	1,874,731,101	1,664,904,148
Common Pension Fund D (market value of \$75,058,445 in 1991)	75,499,312	
Cash Management Fund (market value of \$125,658,784 in 1991 and \$224,637,071 in 1990)	125,658,784	224,637,071
Mortgages (market value of \$791,509,522 in 1991 and \$750,873,896 in 1990)	774,557,590	748,239,639
TOTAL INVESTMENTS	<u>4,757,913,660</u>	<u>4,380,437,802</u>
Receivables:		
Contributions:		
Members	20,682,468	20,082,975
Employers	248,344,148	193,860,444
Investments:		
Accrued interest	53,560,092	47,382,355
Dividends	20,747,591	18,516,728
Members' loans	155,574,156	140,314,995
Other	442,099	820,059
TOTAL RECEIVABLES	<u>499,350,554</u>	<u>420,977,556</u>
Cash	<u>1,900,444</u>	
TOTAL ASSETS	<u><u>\$5,259,164,658</u></u>	<u><u>\$4,801,415,358</u></u>

See notes to financial statements.

BALANCE SHEETS

**Police and Firemen's Retirement System
of New Jersey**

	JUNE 30	
	1991	1990
LIABILITIES & FUND BALANCES		
Liabilities:		
Retirement benefits payable	\$ 20,636,190	\$ 17,774,938
Death benefits payable	936,668	248,363
Cash overdraft		1,283,793
Payable for investments purchased	218	200,790
Accounts payable and accrued expenses	<u>2,597,527</u>	<u>4,455,529</u>
TOTAL LIABILITIES	24,170,603	23,963,413
Fund Balances:		
Members' annuity savings fund	822,629,945	743,256,410
Pension accumulation fund	1,604,446,190	1,536,632,163
Retirement reserve fund	2,760,338,783	2,453,758,994
Special reserve fund	<u>47,579,137</u>	<u>43,804,378</u>
TOTAL FUND BALANCES	<u>5,234,994,055</u>	<u>4,777,451,945</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$5,259,164,658</u>	<u>\$4,801,415,358</u>

See notes to financial statements.

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

Police and Firemen's Retirement System of New Jersey

	<u>FUND BALANCES</u>	
	Members' Annuity Savings Fund	Pension Accumulation Fund
REVENUES		
Contributions:		
Members	\$122,308,022	
Employers		\$ 223,062,967
Investment revenue		183,872,495
TOTAL REVENUES	<u>122,308,022</u>	<u>406,935,462</u>
EXPENSES		
Benefit payments		
Cost-of-living adjustment		
Withdrawals	5,076,047	
Noncontributory group insurance death benefits		11,502,817
Pension Adjustment Fund refund		
Administrative expenses		2,586,736
Other		591,282
TOTAL EXPENSES	<u>5,076,047</u>	<u>14,680,835</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	117,231,975	392,254,627
Transfers between funds for:		
Retirements	(37,992,159)	(325,592,975)
Other	133,719	1,152,375
Fund balances at beginning of year	<u>743,256,410</u>	<u>1,536,632,163</u>
FUND BALANCES AT END OF YEAR	<u><u>\$822,629,945</u></u>	<u><u>\$1,604,446,190</u></u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND BALANCES

Police and Firemen's Retirement System of New Jersey

FUND BALANCES		TOTALS	
Retirement Reserve Fund	Special Reserve Fund	Year Ended June 30	
		1991	1990
		\$ 122,308,022	\$ 112,102,400
		223,062,967	236,481,315
		363,617,233	361,466,781
<u>\$ 175,969,979</u>	<u>\$ 3,774,759</u>	<u>708,988,222</u>	<u>710,050,496</u>
175,969,979	3,774,759		
198,744,573		198,744,573	173,563,280
32,944,657		32,944,657	29,629,132
		5,076,047	5,228,160
		11,502,817	10,666,282
		0	23,584,182
		2,586,736	3,167,537
		<u>591,282</u>	<u>3,135,734</u>
<u>231,689,230</u>		<u>251,446,112</u>	<u>248,974,307</u>
(55,719,251)	3,774,759	457,542,110	461,076,189
363,585,134		0	0
(1,286,094)		0	0
<u>2,453,758,994</u>	<u>43,804,378</u>	<u>4,777,451,945</u>	<u>4,316,375,756</u>
<u>\$2,760,338,783</u>	<u>\$47,579,137</u>	<u>\$5,234,994,055</u>	<u>\$4,777,451,945</u>

See notes to financial statements.

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STATEMENT OF CHANGES IN FINANCIAL POSITION
Police and Firemen's Retirement System
of New Jersey

	JUNE 30	
	1991	1990
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	\$457,542,110	\$461,076,189
Items not providing financial resources:		
Accretion and amortization—net	(2,366,895)	(2,151,319)
Net gain on sales and maturities of long-term investments	(167,612)	(1,273,812)
Net realized gain on Common Pension Funds A, B and D	(28,147,972)	(53,664,416)
	426,859,631	403,986,642
Proceeds from sales and maturities of long-term investments	151,432,735	134,372,792
Decrease in Cash Management Fund	98,978,287	98,654,347
Decrease in receivable for investment sales	0	25,466,084
Increase in retirement benefits payable	2,861,252	2,301,812
Increase in accounts payable and accrued expenses	0	2,262,116
Increase in death benefits payable	688,305	0
Decrease in other receivables	377,960	1,409,794
	681,198,170	668,453,587
TOTAL SOURCES OF FINANCIAL RESOURCES		
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	597,204,401	583,891,559
Increase in contributions receivable	55,083,197	23,768,686
Increase in accrued investment income	8,408,600	9,023,486
Increase in members' loans	15,259,161	16,215,537
Decrease in death benefits payable	0	587,979
Decrease in accounts payable and accrued expenses	1,858,002	0
Decrease in payable for investments purchased	200,572	34,841,319
	678,013,933	668,328,566
TOTAL USES OF FINANCIAL RESOURCES		
INCREASE IN CASH		
Cash overdraft, beginning of year	(1,283,793)	(1,408,814)
CASH (OVERDRAFT), END OF YEAR	\$ 1,900,444	\$(1,283,793)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Police and Firemen's Retirement System

of New Jersey

June 30, 1991

NOTE A—Significant Accounting Policies

The financial statements of the Police and Firemen's Retirement System of New Jersey (the "System") are prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

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

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

Investments in the Common Pension Funds, commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants, are valued at cost plus undistributed realized net gains. At June 30, 1991, undistributed realized net gains amounted to \$34,524,534 consisting of \$26,906,862 in Common Pension Fund A, \$7,519,233 in Common Pension Fund B and \$98,439 in Common Pension Fund D.

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

Mortgages are valued at the amount of unpaid principal balance of the loan, adjusted for amortization of premium 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 and dividend income on investments is recognized when earned.

Administrative Expenses: The System is administered by the State of New Jersey Division of Pensions. Legislation passed during the year ended June 30, 1990 requires administrative expenses to be paid by the System and included in the normal cost of future employer contributions.

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NOTE B—Description of the System

Organization: The System is a cost-sharing multiple-employer contributory defined benefit plan which was established as of July 1, 1944, under the provisions of N.J.S.A. 43:16A. 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 allowances and other benefits to members. Membership in the System is mandatory for substantially all full-time county and municipal police or firemen, and State firemen or officer employees with police powers appointed after June 30, 1944. The System's Board of Trustees is responsible for its organization and administration.

Membership in the System as of June 30, 1990, the date of the most recent actuarial valuation, was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>12,332</u>
Active members:	
Vested	17,787
Non-Vested	<u>17,057</u>
TOTAL ACTIVE MEMBERS	<u>34,844</u>

Loans Receivable: The System 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%. Benefit payments are utilized to repay any outstanding loan balance upon retirement, termination, or death.

Vesting and Benefit Provisions: The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The System provides retirement as well as death and disability benefits. All benefits vest after 10 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final average compensation for each year of creditable service up to 30 years plus 1% for each year of service in excess of 30 years. Final average compensation equals the average compensation 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 special retirement after achieving 25 years of creditable service or they may elect deferred retirement after achieving 10 years of service in which case benefits would begin at age 55

equal to 2% of final average compensation up to 30 years plus 1% for each year of service in excess of 30.

Members are always fully vested for their own contributions. In the case of death before retirement, members' beneficiaries are entitled to full payment of members' contributions.

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

Legislation enacted in 1990 required cost-of-living adjustments to be determined actuarially, retroactive to July 1, 1988, and requires the resulting liability to be funded within 30 years (see Note C). Previously cost-of-living benefits were paid from State of New Jersey Pension Adjustment Fund, which was funded by the State and State-related employers on a pay-as-you-go basis.

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

Information about the System, including vesting and benefit provisions, is contained in the pamphlet "Police and Firemen's Retirement in New Jersey." Copies of this pamphlet 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 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 unfunded pension benefit obligation was determined as part of the most recent annual actuarial valuation dated June 30, 1990.

The pension benefit obligation as of June 30, 1990 was (in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$2,310,896
Current employees:	
Accumulated employee contributions with interest	743,256
Employer-financed vested	2,518,679
Employer-financed non-vested	709,775
Total pension benefit obligation	<u>6,282,606</u>
Net assets available for benefits at book value (market value of \$5,224,154)	<u>4,777,918</u>
Unfunded pension benefit obligation	<u><u>\$1,504,688</u></u>

The above obligation was calculated based on the actuarial assumptions of

- a) an 8.0% discount rate compounded annually;
- b) salary increases ranging from 9.16% at age 25 to 4.99% at age 64 which includes inflation, merit and productivity;
- c) assets valued at cost or amortized cost;
- d) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary; and
- e) 3.75% increase in cost-of-living benefit provisions.

There were no changes in actuarial assumptions compared to the June 30, 1989 pension benefit obligation.

NOTE D—Contribution Policy

Contributions: The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members, State-related employers, and the State. Beginning April 1, 1990 the uniform percentage contribution rate for all members is 8½% of compensation. Prior to April 1, 1990 the contribution rate for members was established based on age at enrollment in the System.

In accordance with the provisions of N.J.S.A. 43:16A, the contribution policy requires State-related employers and the State to make a normal contribution and an accrued liability contribution as determined by a qualified actuary. The System's actuary uses the "entry age normal frozen initial liability" to determine the method of funding. Legislation enacted in fiscal 1991 changed the payment date of employer contribution amount from March 31st to July 1st of each year and rescinded the appropriation from the State for fiscal 1991. As a result, funding of the actuarially determined fiscal 1991 State

contribution of \$48,408,556 was deferred until July 1st of fiscal 1992 and, accordingly, no contribution revenue from the State was recognized by the Fund in the current year. The State-related employer contributions are accrued at June 30, 1991, based on the most recent 1990 actuarial valuation. The normal contribution includes an amount that is required to fund cost-of-living adjustments as well as non-contributory death benefits.

Beginning in the 1990 plan year, the State and State-related employers were required to make contributions for qualified retirees towards the payment of cost-of-living adjustments (see Note B). The unfunded frozen actuarial accrued liability for basic allowances and cost-of-living adjustments is \$2,517,102,499 as of July 1, 1990 and is being funded over a 29 year period as a level percentage of covered payroll.

Total contributions for the year ended June 30, 1991 were \$345,370,989 (\$223,062,967 from employers and \$122,308,022 from employees or 16.79% and 9.20%, respectively, of annual covered compensation based on the most recent actuarial valuation) including \$128,833,361 representing the normal contribution amount and \$88,797,411 relating to the accrued liability funding.

The contributing employers as of June 30, 1990 were:

State	1
Municipalities	<u>462</u>
TOTAL	<u>463</u>

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized increase of the pension obligation discussed in Note C with the exception of the assumed rate of return on investments, which is 7% for contribution requirements.

NOTE E—Description of Fund Balances

Members' Annuity Savings Fund: The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System. Upon retirement of a member, the accumulated contributions 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 are paid from the Members' Annuity Savings Fund.

Pension Accumulation Fund: The Pension Accumulation Fund is credited with the contributions of the State and other employers. Additionally, investment earnings of the Fund, after crediting the Retirement Reserve Fund, as required, are credited to this account.

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Upon retirement of a member, the employer contributions necessary to produce the balance of the retirement reserve allowance are transferred to the Retirement Reserve Fund for subsequent benefit payments.

Each year, the amounts necessary determined by the actuary for the payment of retirement benefits are transferred from the Pension Accumulation Fund to the Retirement Reserve Fund. In addition, payments for the group insurance administered by The Prudential Insurance Company of America to provide noncontributory cash death benefits are made from the Pension Accumulation Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits, including cost-of-living benefits are paid. Upon retirement of a member, accumulated contributions are transferred to the Retirement Reserve Fund from the ASF. Any reserves needed to fund the balance of the retirement benefits are transferred from the Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (7% for 1991 and 6.75% for 1990) 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 Pension Accumulation Fund upon advice of the actuary. During 1990, a transfer amounting to approximately \$570,000,000 was made from the Pension Accumulation Fund to the Retirement Reserve Fund due primarily to the cost-of-living adjustment amendments discussed in Note B.

Special Reserve Fund: The Special Reserve Fund is the Fund to which any excess interest earnings and net realized gains or losses from the sale of securities are transferred. The maximum limit on the accumulation of this amount is 1% of the book value of the investments of the System. Amounts in excess of 1% are credited to the Pension Accumulation Fund.

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.

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GASB Statement No. 3 requires disclosure of the level of investment risk assumed by the System at June 30, 1991. 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, 1991, all investments held by the System 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 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 the System.

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

A summary of investments as of June 30, 1991 and the approximate market value follows:

	Book Value in 000's	Market Value in 000's
Bonds:		
U.S. and Municipal Government bonds	\$ 3,467	\$ 3,619
Industrial bonds	312	305
Telephone bonds	2,864	2,636
Gas, electric and water bonds	13,122	12,530
Finance companies—senior debt	500	500
Railroad equipment obligations	164	165
Other	27,134	27,488
SUBTOTAL	<u>47,563</u>	<u>47,243</u>
Common Pension Fund A	1,859,904	2,789,348
Common Pension Fund B	1,874,731	1,905,704
Common Pension Fund D	75,499	75,058
State of New Jersey Cash Management Fund	125,659	125,659
Mortgages	774,558	791,510
	<u>4,710,351</u>	<u>5,687,279</u>
TOTAL	<u><u>\$4,757,914</u></u>	<u><u>\$5,734,522</u></u>

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 Investments in excess of 5% of net assets are:

	June 30, 1991 in 000's	June 30, 1990 in 000's
Common Pension Fund A	\$1,859,904	\$1,709,189
Common Pension Fund B	1,874,731	1,664,904

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 24 through 27.

REQUIRED SUPPLEMENTARY INFORMATION ANALYSIS OF FUNDING PROGRESS (in millions)

Police and Firemen's Retirement System
 of New Jersey

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

Plan Fiscal Year	(1) Net Assets Available For Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Benefit Obligation As A % Of Covered Payroll (4) ÷ (5)
1986	\$2,522.1	\$2,527.9	99.8%	\$ 5.8	\$ 793.0	0.7%
1987	2,917.0	3,410.5	85.5	493.5	878.7	56.2
1988	3,380.3	3,969.3	85.2	589.1	992.6	59.3
1989*	3,845.8	5,048.9	76.2	1,203.1	1,082.2	111.2
1990	4,289.6	5,524.2	77.7	1,234.6	1,202.2	102.7
1991	4,777.9	6,282.6	76.0	1,504.7	1,328.8	113.2

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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 four years prior to the year ended June 30, 1986 is unavailable.

**Beginning with fiscal 1989, the pension benefit obligation reflects the impact of funding cost-of-living adjustments. See notes to financial statements.*

PERS BY TYPE

Fiscal Year	Benefit		Pension	
	Retirement	Other	Retirement	Other
1987	\$ 33,050,010			\$ 170,144
1983	64,024,512			288,107
1984	78,829,121			1,234,294
1985	89,211,080			184,120
1986	103,566,676			278,178
1987	119,156,734			274,447
1988	137,826,723			804,744
1989	152,192,327			884,217
1990	173,263,280			603,249
1991	198,744,273			901,272

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REQUIRED SUPPLEMENTARY INFORMATION
REVENUES BY SOURCE AND EXPENSES BY TYPE

Police and Firemen's Retirement System
of New Jersey

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

REVENUES BY SOURCE

Plan Fiscal Year	Members' Contributions	Employer Contributions	
		State	% of Annual Covered Compensation
1982	\$ 47,315,384	\$ 5,171,000	.93%
1983	54,407,642	5,825,120	.97
1984	57,323,201	17,377,955	2.62
1985	61,485,398	15,416,056	2.14
1986	82,850,214	22,019,632	2.78
1987	88,606,176	22,269,550	2.53
1988	93,565,698	30,375,778	3.06
1989	99,577,335	38,104,826	3.52
1990	112,102,400	42,377,594	3.53
1991	122,308,022	730,616	.05

EXPENSES BY TYPE

Plan Fiscal Year	Benefits		Withdrawals & Adm.	Transfers to Other Ret. Systems	Total
	Retirement	Other*			
1982	\$ 53,050,010		\$3,598,807	\$ 159,244	\$ 56,808,061
1983	64,024,547		3,090,823	268,167	67,383,537
1984	75,829,121	\$ 9,058,649	3,221,097	1,838,858	89,947,725
1985	89,511,080	7,894,013	3,695,546	188,230	101,288,869
1986	103,566,676	28,735,688	3,950,178	275,178	136,527,720
1987	119,136,734	31,835,426	4,330,250	774,983	156,077,393
1988	137,856,735	33,717,962	5,091,920	896,733	177,563,350
1989	155,192,327	36,751,961	5,829,504	884,591	198,658,383
1990	173,563,280	42,798,799	8,395,697	632,349	225,390,125
1991	198,744,573	44,137,019	7,662,783	901,737	251,446,112

Contributions were made in accordance with actuarially determined contribution requirements. Legislature enacted in fiscal 1991 delayed State contributions until fiscal 1992 (see Note D).

*Beginning in fiscal 1986 other benefits include benefits for cost-of-living increases.

REVENUES BY SOURCE

<u>Employer Contributions</u>			
<u>Local</u>	<u>% of Annual Covered Compensation</u>	<u>Investment Revenue</u>	<u>Total</u>
\$ 75,927,698	13.61	\$130,119,619	\$258,533,701
105,251,969	17.55	142,693,728	308,178,459
106,676,591	16.05	165,204,918	346,582,665
111,708,250	15.48	187,361,940	375,971,644
116,445,451	14.68	231,905,058	453,220,355
158,194,932	18.01	331,440,601	600,511,259
170,203,780	17.15	328,047,351	622,192,607
167,796,456	15.50	339,742,912	645,221,529
194,103,721	16.15	361,466,781	710,050,496
222,332,351	16.73	363,617,233	708,988,222

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Division of Pensions
Police and Firemen's Retirement System
State of New Jersey
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