

CONSOLIDATED POLICE AND  
FIREMEN'S PENSION FUND  
OF  
NEW JERSEY



1988  
*Annual Report*

To His Excellency  
Thomas H. Kean  
Governor of the State of New Jersey

Dear Sir:

The commission of the Consolidated Police and Firemen's Pension Fund of the State of New Jersey is pleased to present the Thirty-Sixth Annual Report in compliance with the provisions of Chapter 358, P.L. 1952.

Respectfully submitted,

SPENCER H. SMITH,  
Chairperson

# *Annual Report*

The Consolidated Police and Firemen's Pension Fund is a program instituted by the State of New Jersey to solve the financial crises of 212 individual municipal pension funds that were providing retirement coverage for their police and fire employees. These funds had a combined unfunded liability of \$238 million and had no provisions for meeting other than current pension liabilities.

The consolidation of these municipal funds actually commenced in 1953, although prior to that date the local funds were closed to further membership. The liabilities were identified and transferred to the Consolidated Fund. A program of actuarial control and amortization of the unfunded liability began with assistance from the State of New Jersey.

The state is now in its 36th year and counties and municipalities have completed the amortization schedule. While the statute contemplates the possibility of additional local government financing, there does not appear to be any need in the near future. This is true despite results which appear to be adverse in the financing of the system. Such include significantly less mortality, particularly involving survivors, and likewise in the benefit schedule which no one could anticipate 30 years ago.

There were no laws enacted that affected the Consolidated Police and Firemen's Pension Fund during this period.

**MEMBERSHIP AND RETIREMENT**

**PENSION PAYROLL**

Month Ending June 30, 1988

**Number of:**

**Gross Annual Allowance:**

Retired Members	1,439	
Widow Beneficiaries	2,760	
Other	24	
Total	4,223	\$44,831,324

**RETIREMENT STATISTICS**

**Fiscal Year 1987-1988**

**Retirements During the Fiscal Year:**

Age and Service	1
Accidental Disability	0
Nonaccidental Disability	0
Total	1

**Survivor Pensions Paid During the Fiscal Year:**

Widows of Active Members	0
Dependent Child—Parents	0
Widows of Retired Members	86
Total	86

**ACTIVE MEMBERSHIP STATEMENT**

**Fiscal Year 1987-1988**

Police Members	0
Fire Members	1
Total	1

# Ernst & Whinney

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Princeton, New Jersey 08540  
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Board of Trustees  
State of New Jersey  
Consolidated Police and Firemen's Pension Fund

We have audited the accompanying component unit financial statements of the State of New Jersey Consolidated Police and Firemen's Pension Fund as of June 30, 1988 and 1987. 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 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 Consolidated Police and Firemen's Pension Fund at June 30, 1988 and 1987, and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

*Ernst & Whinney*

Princeton, New Jersey  
October 28, 1988

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**BALANCE SHEET**

**STATE OF NEW JERSEY  
 CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

	June 30	
	<u>1988</u>	<u>1987</u>
<b>ASSETS</b>		
Investments, at cost:		
Bonds (market value \$62,025,855 in 1988 and \$65,406,665 in 1987)	\$62,871,513	\$ 65,933,798
Cash Management Fund (market value of \$9,849,222 in 1988 and \$11,264,915 in 1987)	9,849,222	11,264,915
Mortgages (market value \$16,719,545 in 1988 and \$14,681,407 in 1987)	17,004,231	14,866,507
Temporary investments (market value of \$10,520,000 in 1987)	0	10,520,000
<b>Total Investments</b>	<u>89,725,026</u>	<u>102,585,220</u>
Receivables:		
Contributions:		
Members	233	797
Employers	17,419	8,094
Accrued income on investments	1,355,166	1,463,246
Due from Pension Adjustment Fund	1,694,387	1,283,018
Other	4,952	15,350
<b>Total Receivables</b>	<u>3,072,157</u>	<u>2,770,505</u>
Cash	350,121	66,358
<b>TOTAL ASSETS</b>	<u>\$93,147,304</u>	<u>\$105,422,083</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Retirement benefits payable	\$ 3,758,127	\$ 2,939,652
Accounts payable and accrued expenses	327,387	174,204
<b>Total Liabilities</b>	<u>4,085,514</u>	<u>3,113,856</u>
Fund Balances:		
Pension reserve fund	89,061,790	102,308,227
Other fund	0	0
<b>Total Fund Balances</b>	<u>89,061,790</u>	<u>102,308,227</u>
<b>TOTAL LIABILITIES AND          FUND BALANCES</b>	<u>\$93,147,304</u>	<u>\$105,422,083</u>

See notes to financial statements.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND BALANCES**

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

	Fund Balances		Totals	
	Pension Reserve Fund	Other Fund	Year Ended June 30, 1988	1987
<b>REVENUES</b>				
Contributions:				
Members	\$ 5,532	\$	\$ 5,532	\$ 14,755
Employers	3,701,792		3,701,792	4,320,014
Investment revenue	7,814,848		7,814,848	8,208,540
Pension Adjustment Fund		20,786,988	20,786,988	16,887,021
Other		37,207	37,207	214,030
<b>TOTAL REVENUES</b>	<u>11,522,172</u>	<u>20,824,195</u>	<u>32,346,367</u>	<u>29,644,360</u>
<b>EXPENSES</b>				
Benefit payments	24,768,609		24,768,609	18,885,255
Pension Adjustment Fund		20,786,988	20,786,988	17,019,164
Other		37,207	37,207	75,690
<b>TOTAL EXPENSES</b>	<u>24,768,609</u>	<u>20,824,195</u>	<u>45,592,804</u>	<u>35,980,109</u>
<b>EXCESS OF EXPENSES OVER REVENUES</b>	( 13,246,427)	0	( 13,246,437)	( 6,335,749)
Fund balances at beginning of year	<u>102,308,227</u>	<u>0</u>	<u>102,308,277</u>	<u>108,643,976</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 89,061,790</u>	<u>\$ 0</u>	<u>\$ 89,061,790</u>	<u>\$102,308,227</u>

See notes to financial statements.

**STATEMENT OF CHANGES IN FINANCIAL POSITION**

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

	<u>Year Ended June 30,</u> <u>1988</u>	<u>1987</u>
<b>SOURCES OF FINANCIAL RESOURCES</b>		
Excess of expenses over revenues	(\$13,246,437)	(\$ 6,335,749)
Accretion and amortization	<u>69,195</u>	<u>92,459</u>
	( 13,177,242)	( 6,243,290)
Proceeds from sales and maturities of long-term investments	26,317,291	22,412,574
Decrease in temporary investments	10,520,000	0
Decrease in Cash Management Fund	1,415,693	8,392,299
Decrease in accrued interest receivable	108,080	8,278
Decrease (increase) in contributions receivable	( 8,761)	1,271
Decrease (increase) in other receivables	0	342,822
Increase (decrease) in retirement benefits payable	818,475	( 154,756)
Increase in accounts payable and accrued expenses	<u>153,183</u>	<u>46,170</u>
	<u>26,146,719</u>	<u>24,805,368</u>
<b>USES OF FINANCIAL RESOURCES</b>		
Purchase of long-term investments	25,461,985	14,269,395
Increase in temporary investments	0	10,520,000
Increase in other receivables	<u>400,971</u>	<u>0</u>
	<u>25,862,956</u>	<u>24,789,395</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	283,763	15,973
<b>CASH, beginning of year</b>	<u>66,358</u>	<u>50,385</u>
<b>CASH, end of year</b>	<u>\$ 350,121</u>	<u>\$ 66,358</u>

See notes to financial statements.

STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

June 30, 1988

**NOTE A—SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Consolidated Police and Firemen's Pension Fund (fund) 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 as of the settlement date, 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 Cash Management Fund are valued 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 accretion of discounts which are amortized over the life of the loans.

Temporary investments represent commercial paper valued at cost, which approximates market.

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 fund is administered by the State of New Jersey Division of Pensions. All administrative expenses are allocated to the state-related employers and they are responsible for such cost. The fund's assets available for paying benefits are not reduced for administrative expenses.

**NOTE B—DESCRIPTION OF THE FUND**

**Organization:** The Fund is a cost-sharing multiple-employer con-

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

tributory defined benefit plan which was established as of January 1, 1952, under the provisions of N.J.S.A. 43:16. The Fund 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 Fund's designated purpose is to provide retirement benefits and other benefits to members. Membership in the Fund is limited to county and municipal police and firemen who were appointed prior to July 1, 1944. There are 2 active vested members and 4,377 pensioners and beneficiaries receiving benefits as of January 1, 1988, the date of the most recent actuarial valuation. The Fund's Board of Trustees is responsible for its organization and administration.

**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 Fund. 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. 43:16. The Fund provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, plus 1% for each creditable year of service in excess of 25 years, but not to exceed 30 years.

Members are always fully vested for their own contributions.

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

**STATE OF NEW JERSEY  
 CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

Information about the agreement, including vesting and benefit provisions, is contained in the "New Jersey Public Employees Benefit Manual." Copies of this manual 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 pension benefit obligation was determined as part of the annual actuarial valuation dated January 1, 1988.

The pension benefit obligation as of December 31, 1987 was:

Pension benefit obligations:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$143,307,585
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Current employees:

Vested	487,792
Nonvested	—

Total pension benefit obligation	<u>143,795,377</u>
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Net assets (fund balance) available for benefits at book value (market value not available)	<u>100,663,886</u>
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Unfunded pension benefit obligation	<u>\$ 43,131,491</u>
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The above liability was calculated based on the actuarial assumptions of a) rate of return on investments of 8½% compounded annually; b) assets valued at cost or amortized cost; and c) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary.

The benefit structure of the Fund is such that specific benefits are payable to certain beneficiaries, such as widows or widowers, minor

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

children and dependent parents. The Fund was amended during 1987 and substantially increased the benefits to these beneficiaries in 1988.

The pension benefit obligation increased \$44,000,000 during the year due to the change in benefits.

**NOTE D—CONTRIBUTION POLICY**

The contribution policy is set by N.J.S.A. 43:16 and requires contributions by active members, State-related employers, and the State. Members contribute 7% of their salary annually to the Fund.

In accordance with the provisions of Chapter 358, P.L. 1952, each employer contributes 6% of total salaries of all active participants each year.

The contribution policy requires State-related employers, which consisted of two as of January 1, 1988, to make a normal contribution. In addition, the State contributes each year, annual deficit payments until and including the payment due July 1, 1991, which had a present value as of December 31, 1970 equal to one-third of the lump-sum amount which was determined to bring the Fund to a state of actuarial solvency. The contribution will be adjusted each year by the amount required to maintain actuarial solvency as calculated by the Fund's actuary using the "projected benefit method." As of January 1, 1988, the actuary computed that, utilizing the present method of funding, the unfunded actuarial liability of the State for prior service amounted to \$65,519,013 including \$50,009,394 as a result of the change in benefits described in Note C, and will be funded over the expected life of the retirants. The annual impact of the increased unfunded actuarial liability on recommended employer contributions is approximately \$8,300,000, however, due to a change in the actuarial valuation date, the 1990 contribution will represent six months of costs and the related impact will be approximately \$4,150,000.

Actual contributions for the year ended June 30, 1988 were \$3,707,324 (\$3,701,792 from employers and \$5,532 from members) which primarily relates to the accrued liability funding.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note C with the exception

**STATE OF NEW JERSEY  
 CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

of the assumed rate of return on investments, which is 6% for contribution requirements.

No actuarial assumptions were changed during the year.

**NOTE E—DESCRIPTION OF FUND BALANCES**

**Pension Reserve Fund:** The Pension Reserve Fund is credited with all active member, State-related, and State contributions and investment income. In addition, all benefit payments are paid from this account.

**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 Division of Pensions. All investments must conform to standards set by State law.

A summary of investment securities as of June 30, 1988 and the approximate market values follows:

	<u>Book Value</u>	<u>Market Value</u>
	(000's)	
U.S. and municipal Government bonds and obligations	\$46,984	\$46,993
Industrial bonds	100	100
Telephone bonds	4,062	3,586
Gas and electric bonds	8,854	8,399
Finance companies—senior debt	250	241
Other	<u>2,622</u>	<u>2,706</u>
	62,872	62,025
Mortgages	17,004	16,720
State of New Jersey Cash Management Fund	<u>9,849</u>	<u>9,849</u>
<b>TOTAL</b>	<u><u>\$89,725</u></u>	<u><u>\$88,594</u></u>

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

Investments in excess of 5% of net assets are:

	<b>June 30</b>	
	<u><b>1988</b></u>	<u><b>1987</b></u>
	(In 000's)	
State of New Jersey Cash Management Fund	\$9,849	\$11,265
Exxon Credit Corp. Note, 6.800%, due 7/9/87		6,520

**NOTE G—INCOME TAX STATUS**

Based on a 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.

**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 17 and 18.

**SUMMARY OF THE ACTUARIAL REPORT**  
**JANUARY 1, 1988**

The rate of anticipated interest earning used for the valuation was 6.0 percent compounded annually.

	<u>Annual Number</u>	<u>Annual Salaries</u>	<u>Pensions</u>
<b>Active members</b>	2	\$83,506	
<b>Pensioners:</b>			
Service Retirement	1,301		\$ 9,842,880
Disability Retirement	209		823,443
Widow Beneficiaries	2,844		14,034,198
Dependents—Other	23		31,320
	<u>4,377</u>		<u>\$24,371,841</u>

The adjusted amortization installment developed from this valuation were as follows:



Annual payment 7/1/89

**STATE of N.J.**  
 \$12,899,528

**NOTE:** The final county-municipal debt payment on the original amount of the deficit that was to be amortized over a 30-year period was made in 1982.

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

Board of Trustees  
State of New Jersey  
Consolidated Police and Firemen's Pension Fund

The analysis of funding progress and revenues by source and benefits of the State of New Jersey Consolidated Police and Firemen's Pension Fund 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.

*Ernst & Whinney*

October 28, 1988

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS**

**STATE OF NEW JERSEY**  
**CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

Information from the most recent actuarial valuation for the fiscal year end.

<u>Plan Fiscal Year</u>	<u>(1) Net Assets Available For Benefits</u>	<u>(2) Pension Benefit Obligation</u>	<u>(3) Percentage Funded (1) ÷ (2)</u>	<u>(4) Unfunded Pension Benefit Obligation (2) - (1)</u>
1988	\$100,663,886	\$143,795,377	70.0%	\$43,131,491

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 Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Fund.

Information for the nine years prior to the year ended June 30, 1988 is unavailable.

**REQUIRED SUPPLEMENTARY INFORMATION  
REVENUES BY SOURCE AND BENEFITS**

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

Plan Fiscal Year	Revenues By Source				
	Members	Employer	Contributions	Investment	Total
	<u>Contributions</u>	<u>State</u>	<u>Local</u>	<u>Income</u>	
1979	\$191,525	\$5,741,354	\$17,991,319	\$ 5,385,619	\$29,309,817
1980	124,881	5,925,559	18,786,032	6,237,174	31,073,646
1981	83,335	5,910,555	19,326,041	7,363,087	32,683,018
1982	70,792	6,053,304	20,470,507	9,601,863	36,196,466
1983	37,583	6,121,722	20,450,960	10,320,749	36,931,014
1984	30,241	5,391,350	35,952	10,625,861	16,083,404
1985	23,252	5,328,891	25,001	9,787,810	15,164,954
1986	19,030	5,023,989	41,489	10,238,063	15,322,571
1987	14,755	4,311,773	8,241	8,208,540	12,543,309
1988	5,532	3,681,819	19,973	7,814,848	11,522,172

  

Plan Fiscal Year	<u>Benefits</u>
1979	\$25,637,132
1980	25,312,020
1981	24,815,542
1982	24,084,346
1983	23,273,363
1984	22,323,774
1985	21,202,511
1986	19,985,501
1987	18,885,255
1988	24,768,609

Contributions were made in accordance with actuarially determined contribution requirements.

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Consolidated Police and Firemen's Pension Fund  
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