State of New Jersey
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

TO THE HONORABLE
JAMES E. McGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

The Board of Trustees of the

TEACHERS' PENSION AND ANNUITY FUND

is pleased to present the Fiscal Year 2004 Annual Report in accordance with the provisions of N.J.S.A. 18A:66-59.

Respectfully submitted,

HARRY BALDWIN
Chairperson

Teachers' Pension and Annuity Fund

BOARD OF TRUSTEES

SIGNIFICANT LEGISLATION

Chapter 128, P.L. 2003

This law provides additional retirement benefits to certain employees of a county, a county college or a municipality that elect to provide the benefits, who retire under the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF) or the Alternate Benefit Program (ABP). The governing body of the employer will have one year after the enactment of this law to adopt a resolution electing to participate in this program. Once a resolution is adopted and effective, employees will have three months to retire. Employers participating in several locally administered county, municipal and school district pension systems may also adopt the provisions of this law.

Employees who are at least 50 years of age and have at least 25 years of service credit as of the effective date of retirement will receive an additional three years of service credit. If a member of PERS or TPAF is under age 55 at the time of retirement, the member's retirement allowance will not be reduced. Employees who satisfy age and service requirements and who retire on a special veteran's retirement will receive an additional pension in the amount of 3/55 of the compensation on which the retirement allowance is based. Participants in ABP will receive an amount equal to 100% of base annual salary at the time of retirement.

Employees who are at least 60 years of age with between 20 and 25 years of service as of the effective date of retirement will receive employer-paid coverage in the New Jersey State Health Benefits Program. The retired employees and their dependents will be eligible for coverage in the program even if the employer does not participate in the program or otherwise provide health care benefits coverage in retirement upon the normal retirement of such employees. Employees who are at least 60 years of age with between 10 and 20 years of service as of the effective date of retirement will receive an additional pension payment of $500 per month for the first 24 months after retirement.

When the needs of an employer require the services of an employee who elects to retire and receive a benefit under this law, the employer, with the approval of the governing body and the consent of the employee, may delay the effective retirement date of the employee for up to one year. The delay authorized under the law does not extend the dates for qualification for benefits.

The cost of the enhanced PERS and TPAF pension benefits will be funded by employer contributions to the retirement systems and paid by the county, county college or municipality who elect to participate. The additional pension liability shall be paid by each electing entity over a period of 15 years. Payments to ABP members shall be made by employers first to the members' annuity contract under the ABP, then to a member's section 403(b) contract, up to the limits allowed by the Internal Revenue Code. Payments in excess of any limits shall be paid directly to the member. The SHBP health care benefits payments for eligible retirees and their dependents will be paid by the employer on a current cost basis. Additionally, an electing county college employer shall be required to pay the SHBP health care premiums for three years following retirement for each employee who retires under this program with 25 or more years of pension service credit and who would otherwise be qualified for State-paid health benefits after retirement.

An employer may elect to provide these benefits by the adoption of a resolution by its governing body and the filing of a certified copy with the Director of the Division of Pensions and Benefits within three business days. The effective date of the resolution must fall within one year of enactment of this law. An employer may offer these benefits only once. An employer covered by this law must meet with the employee union representatives, whether or not the employer adopts a resolution, within a year of the enactment of this law.

The provisions of this law do not apply to employees of a public agency or organization, nor does it apply to members of the Prosecutors Part of PERS.

This law also provides for the following:

- Partial purchase of pension service credit to qualify.
- The employer shall pay the cost of the actuarial work to determine the additional liability of the retirement systems for the benefits under this act, which shall be included in the initial contribution required from the employer.
- The promulgation of rules and regulations by the Division of Pensions and Benefits deemed necessary for the effective implementation of this act.
- The enrollment in the SHBP of those retiring under this act at age 60 with between 20 and 25 years of service within 60 days of retirement.
- Authorizes counties and municipalities to issue refunding bonds to retire the present value of the unfunded accrued pension liabilities for early retirement incentive benefits granted by the law.

This law was effective July 14, 2003.

Chapter 129, P.L. 2003

This law provides additional retirement benefits to certain employees of a local school board, educational services commission or jointure commission that elect to provide the benefits, who retire under the Public Employees' Retirement System (PERS) or the Teachers' Pension and Annuity Fund (TPAF). The governing body of the employer will have one year after the enactment of this law to adopt a resolution electing to participate in this program. Once a resolution is adopted and effective, employees will have two months to retire.

An employee who is at least 50 years of age and has at least 25 years of service credit under PERS or TPAF as of the effective date of retirement will receive an additional three years of service credit. If a member of PERS or TPAF is under age 55 at the time of retirement, the member's retirement allowance will not be reduced. An employee veteran who meets the age and service credit requirements and retires on a special veteran's retirement under PERS or TPAF will receive an additional pension in the amount of 3/55 of the compensation on which the retirement allowance is based.

An employee who is at least 60 years of age and has at least 20, but less than 25, years of service as of the effective date of retirement will receive full payment of premiums for coverage under the State Health Benefits Program (SHBP) for the retired employee and dependents, but not including survivors, whether or not the employer participates in SHBP with respect to its active employees. An employee who is at least 60 years of age with at least 10, but less than 20, years of service credit will receive an additional pension of $500 per month for the 24 months following retirement.

When the needs of an employer require the services of an employee who elects to receive a benefit under this law, the employer may delay, with the consent of the employee, the effective retirement date of the employee for up to one year. The authorization for a delay in the effective retirement date does not extend the dates for qualification for benefits.

The cost of the enhanced pension benefits will be funded by employer contributions to the retirement systems and paid by the school boards, educational services commissions or jointure commissions who elect to participate. The additional pension liability shall be paid by each electing entity in level payments over a period of 15 years. The SHBP health care benefits payments for eligible retirees and their dependents will be paid by the employer on a current cost basis. Additionally, an electing employer shall be required to pay the SHBP health care premiums for each employee who retires under this program with 25 or mores years of pension service credit for three years following retirement.

An employer may elect to provide these benefits by the adoption of a resolution by its governing body, which is to be effective July 1, and the filing of a certified copy with the Director of the Division of Pensions and Benefits within three business days after its adoption. The effective date of the resolution must fall within 15 months of enactment of this law. An employer may offer these benefits only once. An employer covered by this law must meet with the employee union representatives, whether or not the employer adopts a resolution, within a year of the enactment of this law.

Any employee that was eligible, or could have been if the employer elected, to participate in the State early retirement incentive program offered in 2002 pursuant to P.L. 2002, c.23, is not eligible for the early retirement incentive benefits granted under this law.

This law also provides for the following:

- Partial purchase of pension service credit to qualify.
- The employer shall pay the cost of the actuarial work to determine the additional liability of the retirement systems for the benefits under this act which shall be included in the initial contribution required from the employer.
- The promulgation of rules and regulations by the Division of Pensions and Benefits deemed necessary for the effective implementation of this act.
- Authorizes boards of education to issue refunding bonds to retire the present value of the unfunded accrued pension liabilities for early retirement incentive benefits granted by the law.

This law was effective July 14, 2003.

Chapter 197, P.L. 2003

This law extends eligibility for certain veterans' benefits to veterans of Operations "Enduring Freedom" and "Iraqi Freedom" who served at least 14 days in the theater of operation of those campaigns and in direct support thereof.

The benefits for which a qualified veteran will become eligible under this law include:

1. For eligible public employees, absolute civil service preference under Title 11A of the New Jersey Statutes;
2. For eligible members of the public employee pension systems, (a) the veteran's retirement allowance under the Teachers' Pension and Annuity Fund (TPAF) or the Public Employees' Retirement System (PERS), and (b) the right to purchase additional pension credit in the Police and Firemen's Retirement System (PFRS), TPAF or PERS; and
3. For homeowners, entitlement to the annual property tax deduction provided for by Article VIII of the New Jersey Constitution ($250 in each tax year) or a property tax exemption if the eligible person has a total and permanent service-incurred disability.

Of the three operations, service that may qualify a person for benefits under the law is as follows:

a. "Enduring Freedom" refers collectively to operations conducted abroad since September 11, 2001, in prosecution of the war against terror, including but not limited to operations conducted in Afghanistan.

b. "Iraqi Freedom" refers to the operations in and around Iraq beginning in March 2003 and still ongoing.

In addition to its broadening of veterans' benefit eligibility, this law makes technical changes and updates to descriptions of what constitutes service during the military conflicts of Operation "Restore Hope" in Somalia and Operations "Joint Endeavor" and "Joint Guard" in the Republic of Bosnia and Herzegovina.

This law was effective December 16, 2003.

Chapter 246, P.L. 2003

This new law is designated the "Domestic Partnership Act." It creates a mechanism, through the establishment of domestic partnerships, for New Jersey to recognize and support adult individuals in this State who share an important personal, emotional and committed relationship with another adult.

The law provides that two persons who desire to become domestic partners may execute and file an Affidavit of Domestic Partnership with the local registrar upon payment of a fee, in an amount to be determined by the Commissioner of Health and Senior Services, if they meet all of the following requirements:

- Both persons share a common residence in this State, or share the same place to live in another jurisdiction and at least one of them is a member of a State-administered retirement system;
- Both persons are otherwise jointly responsible for each other's common welfare as evidenced by joint financial arrangements or joint ownership of real or personal property, which are to be demonstrated by at least one of the following: a joint deed, mortgage agreement or lease; a joint bank account; designation of one of the persons as a primary beneficiary in the other person's will; designation of one of the persons as a primary beneficiary in the other person's life insurance policy or retirement plan; or joint ownership of a motor vehicle;
- Both persons agree to be jointly responsible for each other's basic living expenses during the domestic partnership;
- Neither person is in a marriage recognized by New Jersey law or a member of another domestic partnership;
- Neither person is related to the other by blood or affinity up to and including the fourth degree of consanguinity;
- Both persons are of the same sex and therefore unable to enter into a marriage with each other that is recognized by New Jersey law, or are each 62 years of age or older and not of the same sex;
- Both persons have chosen to share each other's lives in a committed relationship of mutual caring;
- Both persons are at least 18 years of age;
- Both persons file jointly an Affidavit of Domestic Partnership; and
- Neither person has been a partner in a domestic partnership that was terminated less than 180 days prior to the filing of the current Affidavit of Domestic Partnership, except that this prohibition does not apply if one of the partners died; and, in all cases in which a person registered a prior domestic partnership, the domestic partnership must have been terminated in accordance with the provisions of the law.

In the case of domestic partners that are not of the same sex, the domestic partnership will terminate automatically upon the partners' entry into a marriage with each other that is recognized by New Jersey law.

This law accords domestic partners rights and responsibilities that reflect the mutually interdependent and supportive nature of domestic partnership relationships. It provides all domestic partners with:

- statutory protection through the "Law Against Discrimination" (N.J.S.A.10:5-1 et seq.) against various forms of discrimination based on domestic partnership status, including employment, housing and credit discrimination;

- visitation rights for a hospitalized domestic partner and the right to make medical or legal decisions for an incapacitated partner; and
- an additional personal exemption under the "New Jersey Gross Income Tax Act" (N.J.S.A.54A:1-1 et seq.) and an exemption from the New Jersey transfer inheritance tax on the same basis as a spouse.

This law also makes certain health and pension benefits available to dependent domestic partners in the case of domestic partnerships in which both persons are of the same sex and therefore unable to enter into a marriage with each other that is recognized by New Jersey law:

- in the case of State employees, eligibility for dependent coverage under the State Health Benefits Program and dependent benefits under State-administered retirement systems (Public Employees' Retirement System, Police and Firemen's Retirement System, Judicial Retirement System, Teachers' Pension and Annuity Fund, and State Police Retirement System);
- in the case of other public employees, including employees of counties, municipalities and boards of education, eligibility for dependent coverage under the State Health Benefits Program and State-administered retirement systems, if the employer adopts a resolution providing for such coverage; and
- eligibility for dependent coverage under health insurance contracts and policies that commercial health and dental insurers are required to offer to covered persons under the law.

It also provides that two adults who have not filed an Affidavit of Domestic Partnership are to be treated as domestic partners in an emergency medical situation for the purposes of allowing one adult to accompany the other adult who is ill or injured while the latter is being transported to a hospital, or to visit the other adult who is a hospital patient, on the same basis as a member of the latter's immediate family, if both persons, or one of the persons in the event that the other person is legally or medically incapacitated, advise the emergency care provider that the two persons have met the other requirements for establishing a domestic partnership; however, this provision is not to be construed to permit the two adults to be treated as domestic partners for any other purpose prior to their having filed an Affidavit of Domestic Partnership.

Additionally, this law stipulates that, notwithstanding any other provisions of law to the contrary, the following provisions in this law shall not be deemed an unlawful discrimination under the "Law Against Discrimination" (N.J.S.A.10:5-1 et seq.):

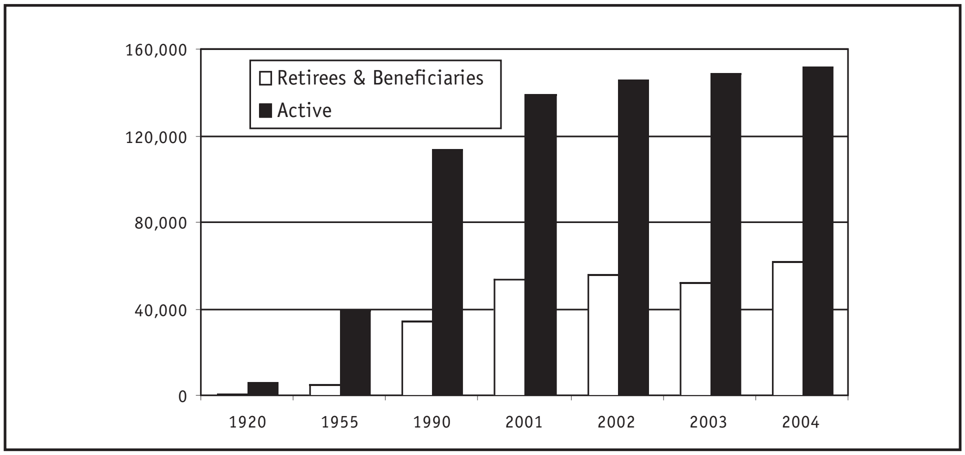
- Section 57, which permits an employer that provides a health benefits plan (as defined in N.J.S.A.26:2S 2) to its employees and their dependents to require that an employee contribute a portion or the full amount of the cost of dependent coverage under the plan for the employee's domestic partner, and
- Section 58, which deals with the distinction between same-sex couples and opposite-sex couples over 62 years of age who establish domestic partnerships with respect to health and pension benefits made available to dependent domestic partners under this law.

The SHBP and State administered pension statutes impacted by this law can be found in Sections 41 through 46 of the law.

This law was effective on July 10, 2004.

MEMBERSHIP

- As of June 30, 2004, the active membership of the Fund totaled 151,911. This includes 421 State employees and 151,490 employees from 106 participating local employers. There were 13,677 inactive members in the Fund as of June 30, 2004.
- There were 61,965 retirees and beneficiaries receiving annual pensions totaling $1,821,694,407. *(This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act)*.
- Beneficiaries of 117 active and 1,908 retired members received lump sum death benefits in the amount of $59,806,846.
- The Fund's assets totaled $28,894,103,112 at the close of the fiscal year 2004.



MEMBERSHIP ACTIVITY

During fiscal year 2004, 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.

- **ENROLLMENTS** - 10,421 new members were enrolled during fiscal year 2004.
- **LOANS** - 17,936 loans were issued to members. The total loans receivable as of June 30, 2004 is $225,813,161.
- **WITHDRAWALS** - there were 1,502 withdrawals during fiscal year 2004.
- **RETIREMENT** - 4,133 members retired under the following retirement types:

TYPE OF RETIREMENT	
Service	1,640
Early	385
Ordinary Disability	180
Accidental Disability	11
Veteran	194
Deferred	189
Over 55 - Early	1,526
Other	8
TOTAL	4,133

OPTION SELECTION	
Maximum	1,787
Option 1	239
Option 2	111
Option 3	50
Option 4	10
Option A	508
Option B	273
Option C	794
Option D	360
Other	1
TOTAL	4,133

KPMG LLP
New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

Independent Auditors' Report

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

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Teachers' Pension and Annuity Fund (the Fund) as of June 30, 2004 and 2003, and the related statements of changes in fiduciary net assets for the years 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 auditing standards generally accepted in the United States of America. 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 financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 2004 and 2003, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of changes in fiduciary net assets by fund is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audits 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.

September 24, 2004

KPMG LLP

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Management's Discussion and Analysis
June 30, 2004 and 2003

Our discussion and analysis of the Teachers' Pension and Annuity Fund (the Fund)'s financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2004 and 2003. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

2004 - 2003

- Net assets held in trust for pension and post-retirement medical benefits increased by $2,170,989,534 as a result of this year's operations from $26,549,160,496 to $28,720,150,030.
- Additions for the year were $4,514,705,014, which are comprised of member and employer pension contributions of $862,107,201 and investment income of $3,652,597,813.
- Deductions for the year were $2,343,715,480, which are comprised of benefit and refund payments of $2,334,926,520 and administrative expenses of $8,788,960.
- The Fund utilized net assets (excess assets above the required funding level) to meet this year's normal pension contribution requirements in part.

2003 - 2002

- Net assets held in trust for pension and post-retirement medical benefits decreased by $708,974,345 as a result of this year's operations from $27,258,134,841 to $26,549,160,496.
- Additions for the year were $1,392,105,717, which are comprised of member and employer pension contributions of $604,914,820 and investment income of $787,190,897.
- Deductions for the year were $2,101,080,062, which are comprised of benefit and refund payments of $2,091,193,357 and administrative expenses of $9,886,705.
- The Fund utilized net assets (excess assets above the required funding level) to meet this year's normal pension contribution requirements in part.
- Net assets held in trust for post-retirement medical benefits were used this year to pay part of premiums and other periodic charges for health care benefits for qualified retirees and their dependents.

THE STATEMENTS OF FIDUCIARY NET ASSETS AND THE STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

This annual report consists of two financial statements: *The Statements of Fiduciary Net Assets* and *The Statements of Changes in Fiduciary Net Assets.* These financial statements report information about the Fund and about its activities to help you assess whether the Fund, as a whole, has improved or declined as a result of the year's activities. The financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period they are earned, and expenses are recorded in the year they are incurred, regardless of when cash is received or paid.

The Statements of Fiduciary Net Assets show the balances in all of the assets and liabilities of the Fund at the end of the fiscal year. The difference between assets and liabilities represents the Fund's fiduciary net assets. Over time, increases or decreases in the Fund's fiduciary net assets provide one indication of whether the financial health of the Fund is improving or declining. *The Statements of Changes in Fiduciary Net Assets* show the results of financial operations for the year. The statements provide an explanation for the change in the Fund's fiduciary net assets since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes, including the required supplementary schedules, to determine whether the Fund is becoming financially stronger or weaker.

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Assets	$28,894,103,112	$26,703,636,553	$2,190,466,559
Liabilities	173,953,082	154,476,057	19,477,025
Net Assets (Deficit)	$28,720,150,030	$26,549,160,496	$2,170,989,534

The Fund's assets mainly consist of cash, investments and contributions due from members and participating employers. Between fiscal years 2003 and 2004, total assets increased by $2.2 billion or 8.2%. The total assets increased due to an increase in contributions receivable from members and employers and also overall increase in fair value of investments. Last year employer contribution receivables decreased partly due to Chapter 42, P.L. 2002, which permitted local government units to issue refunding bonds to retire an unfunded accrued liability resulting from early retirement benefits. This year employer contribution receivables are including State appropriation, based on Chapter 23, P.L. 2002, which permitted early retirement incentive benefits to State employees who meet specified age and service requirements and who retire within a specified time period.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, noncontributory group insurance premiums owed to the Fund's insurance provider, and other payables. Total liabilities increased by $19.5 million or 12.6% over last year. This is mainly due to an increase in benefits payable to retirees and beneficiaries, partly related to the State Early Retirement Incentive (Chapter 23, P.L. 2002).

Net assets held in trust for pension and post-retirement medical benefits decreased by $2.2 billion or 8.2%.

2003 - 2002

	2003	2002	Increase (Decrease)
Assets	$26,703,636,553	$27,410,390,351	$(706,753,798)
Liabilities	154,476,057	152,255,510	2,220,547
Net Assets (Deficit)	$26,549,160,496	$27,258,134,841	$(708,974,345)

Between fiscal years 2002 and 2003, total assets decreased by $706.7 million or 2.6%. The total assets decreased because pension benefit payments to retirees and beneficiaries exceeded the revenues received by the Fund.

Total liabilities increased by $2.2 million or 1.5% over last year. This is mainly due to an increase in retirement benefit payments.

Net assets held in trust for pension and post-retirement medical benefits decreased by $709.0 million or 2.6%.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS
2004-2003

	2004	2003	Increase (Decrease)
Member Contributions	$405,695,555	$303,570,787	$102,124,768
Employer Contributions	456,411,646	301,342,962	155,068,684
Investment	3,652,597,813	787,191,968	2,865,405,845
Totals	$4,514,705,014	$1,392,105,717	$3,122,599,297

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions increased by $102.1 million or 33.6% partly due to elimination of a reduction in the employee contribution rate (i.e., returning to the normal rate of 5% from 3%), which was effective January 1, 2004.

Employer contribution increased by $155.1 million or 51.5% over last year. The State made a contribution of $424.8 million for fiscal year 2004 post-retirement medical (PRM). Also, employer contributions are including $16.6 million from State appropriation, based on Chapter 23, P.L. 2002.

For fiscal year 2004, the 68% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State was not required to make a normal contribution to the Fund between 1997 and 2004 based on Pension Security legislation passed in 1997.

Investment & other revenues increased by $2.9 billion or 364.0% due to an increase in earnings and net appreciation in fair value of investments.

The total investment gain for all pension funds was estimated to be 14.2% compared to 3.3% gain in the prior year.

2003-2002

	2003	2002	Increase (Decrease)
Member Contributions	$303,570,787	$331,060,403	$(27,489,616)
Employer Contributions & Other	301,344,033	4,134,785	297,209,248
Investment	787,190,897	(2,509,722,711)	3,296,913,608
Totals	$1,392,105,717	$(2,174,527,523)	$3,566,633,240

Member contributions decreased by 8.3% partly due to a reduction in the employee contribution rate from 4.5% to 3%, which was effective January 1, 2002. (The new rate affected only half of the year in the prior fiscal year.)

The State made a contribution of $298.3 million for fiscal year 2003 post-retirement medical (PRM). In addition, the PRM reserve of $43.9 million was used to cover additional premiums due in fiscal year 2003.

For fiscal year 2003, the 84% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State was not required to make a normal contribution to the Fund between 1997 and 2003 based on Pension Security legislation passed in 1997.

After the prior two consecutive years of investment losses, the Fund had investment gains in fiscal year 2003. The total investment gain for all pension funds was estimated to be 3.3% compared to 9.0% loss in the prior year.

DEDUCTIONS FROM FIDUCIARY NET ASSETS
2004 - 2003

	2004	2003	Increase (Decrease)
Benefits	$2,306,188,800	$2,065,315,692	$240,873,108
Refunds & Adjustments	28,737,720	25,877,665	2,860,055
Administrative Expenses	8,788,960	9,886,705	(1,097,745)
Totals	$2,343,715,480	$2,101,080,062	$242,635,418

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund. Benefit payments increased by $240.9 million or 11.7% partly due to an increase in number of retirees based on the State Early Retirement Incentive (Chapter 23, P.L. 2002). The number of refunds processed has increased by $2.9 million or 11.1% due to an increase in member transfer-out. Administrative expenses decreased by $1.1 million or 11.1% mainly due to a decrease in salaries and wages cost over the last year.

2003 - 2002

	2003	2002	Increase (Decrease)
Benefits	$2,065,315,692	$1,791,516,438	$273,799,254
Refunds & Adjustments	25,877,665	22,624,415	3,253,250
Administrative Expenses	9,886,705	9,648,390	238,315
Totals	$2,101,080,062	$1,823,789,243	$277,290,819

Benefit payments increased partly due to the benefit enhancements which were effective with the November 1, 2001 retirement checks. (The new rate affected only eight months in the prior fiscal year.) The number of retirees receiving benefits has also increased. The number of refunds processed has increased compared to last year due to more terminations. Administrative expenses increased mainly due to contractual increases in salaries.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 92.7% for fiscal year 2004 and 100.0% for 2003 indicate that the Fund has assets sufficient to meet its benefit obligations.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Fiduciary Net Assets

June 30, 2004 and 2003

	2004			2003		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Assets:						
Cash	$ —	—	—	3,087,365	—	3,087,365
Investments, at fair value:						
Cash Management Fund	1,085,082,450	16,283	1,085,098,733	1,006,897,996	12,193	1,006,910,189
Bonds	61,461,827	922	61,462,749	79,869,047	967	79,870,014
Common Pension Fund A	14,228,140,825	213,512	14,228,354,337	12,504,208,011	151,413	12,504,359,424
Common Pension Fund B	7,172,129,653	107,628	7,172,237,281	7,339,537,581	88,874	7,339,626,455
Common Pension Fund D	5,646,343,378	84,731	5,646,428,109	4,824,877,633	58,425	4,824,936,058
Mortgage Backed Securities	199,240,801	2,990	199,243,791	438,827,309	5,314	438,832,623
Total investments	28,392,398,934	426,066	28,392,825,000	26,194,217,577	317,186	26,194,534,763
Receivables:						
Contributions:						
Members	75,634,792	—	75,634,792	64,454,002	—	64,454,002
Employers	64,184,372	—	64,184,372	55,544,914	—	55,544,914
Accrued interest and dividends	134,607,641	—	134,607,641	144,458,676	—	144,458,676
Members' loans	225,813,161	—	225,813,161	241,542,590	—	241,542,590
Other	1,038,146	—	1,038,146	14,243	—	14,243
Total receivables	501,278,112	—	501,278,112	506,014,425	—	506,014,425
Total assets	28,893,677,046	426,066	28,894,103,112	26,703,319,367	317,186	26,703,636,553
Liabilities:						
Accounts payable and accrued expenses	17,151,306	—	17,151,306	11,460,340	—	11,460,340
Retirement benefits payable	152,768,986	—	152,768,986	141,037,830	—	141,037,830
NCGI premiums payable	2,055,669	—	2,055,669	1,977,887	—	1,977,887
Cash overdraft	1,977,121	—	1,977,121		—	—
Total liabilities	173,953,082	—	173,953,082	154,476,057	—	154,476,057
Net Assets:						
Held in trust for pension benefits	$ 28,719,723,964	426,066	28,720,150,030	26,548,843,310	317,186	26,549,160,496

See schedule of funding progress on page 24.
See accompanying notes to financial statements.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2004 and 2003

	2004			2003		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Additions:						
Contributions:						
Members	$ 405,695,555	—	405,695,555	303,570,787	—	303,570,787
Employers	31,660,323	424,751,323	456,411,646	3,020,752	298,322,210	301,342,962
Other	—	—	—	1,071	—	1,071
Total contributions	437,355,878	424,751,323	862,107,201	306,592,610	298,322,210	604,914,820
Investment income:						
Net appreciation (depreciation) in fair value of investments	2,884,910,953	45,104	2,884,956,057	7,116,650	241,636	7,358,286
Interest	530,936,332	—	530,936,332	574,949,013	—	574,949,013
Dividends	239,296,574	—	239,296,574	207,943,503	—	207,943,503
	3,655,143,859	45,104	3,655,188,963	790,009,166	241,636	790,250,802
Less: investment expense	2,591,150	—	2,591,150	3,059,905	—	3,059,905
Net investment income	3,652,552,709	45,104	3,652,597,813	786,949,261	241,636	787,190,897
Total additions	4,089,908,587	424,796,427	4,514,705,014	1,093,541,871	298,563,846	1,392,105,717
Deductions:						
Benefits	1,881,501,253	424,687,547	2,306,188,800	1,723,135,254	342,180,438	2,065,315,692
Refunds of contributions	28,737,720	—	28,737,720	25,877,665	—	25,877,665
Administrative expenses	8,788,960	—	8,788,960	9,886,705	—	9,886,705
Total deductions	1,919,027,933	424,687,547	2,343,715,480	1,758,899,624	342,180,438	2,101,080,062
Change in net assets	2,170,880,654	108,880	2,170,989,534	(665,357,753)	(43,616,592)	(708,974,345)
Net assets - Beginning of year	26,548,843,310	317,186	26,549,160,496	27,214,201,063	43,933,778	27,258,134,841
Net assets - End of year	$ 28,719,723,964	426,066	28,720,150,030	26,548,843,310	317,186	26,549,160,496

See accompanying notes to financial statements.

(1) DESCRIPTION OF THE FUND

The State of New Jersey Teachers' Pension and Annuity Fund (the Fund; TPAF) is a cost-sharing contributory defined benefit plan with a special funding situation 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 basic 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:66. 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 or under the disability provisions of the Fund. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 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.

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.

Significant Legislation:

Chapter 42, P.L. 2002 permitted local government units to issue refunding bonds to retire an unfunded accrued liability resulting from early retirement benefits, effective July 12, 2002.

Chapter 23, P.L. 2002 provided early retirement incentive benefits to State employees who meet specified age and service requirements and who retire within a specified time period that generally extended from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20, but less than 25, years of service credit; and an additional monthly benefit of $500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10, but not more than 20, years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit.

Chapter 11, P.L. 2002 allowed the State to use net assets in post-retirement medical (PRM) fund to cover required pay-as-you-go medical premiums. This legislation also suspended in fiscal years 2002 and 2003 the additional PRM contribution to increase the fund balance by 1/2 of 1% of active member salaries for the valuation period.

Membership and Contributing Employers:

Membership in the Fund consisted of the following at June 30, 2003 and 2002, the dates of the most recent actuarial valuations:

2003	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	60,361	42,744
Active members:		
Vested	76,378	28,948
Non-vested	69,504	116,934
Total active members	145,882	145,882
Total	206,243	188,626
Contributing Employers	107	1

2002	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	57,398	39,714
Active members:		
Vested	77,054	29,287
Non-vested	65,106	112,873
Total active members	142,160	142,160
Total	199,558	181,874
Contributing Employers	114	1

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Fund is accounted for using an economic resources measurement focus. The Fund that focuses on total economic resources employs the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net assets of the Fund. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the Fund conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when payable in accordance with the terms of the Fund.

Investment Valuation:

Investments, including short-term investments (State of New Jersey Cash Management Funds), are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgage backed securities are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. 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 Common Pension Fund A 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 Common Pension Fund B 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 Common Pension Fund D 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 08625-0290.

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, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, requires disclosure of the level of custodial 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, 2004 and 2003, all investments held by the Fund (other than mortgage backed securities and the State of New Jersey Cash Management Funds which are not categorized) are classified as Category 1.

In 2001, the Board of Trustees approved that the Post-Retirement Medical Fund earn a rate of return consistent with the Fund and henceforth. In prior years, the Post-Retirement Medical Fund earned a statutorily determined fixed rate of return of 8.75%.

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.

Members' Loans:

Members who have at least three years of service in the Fund may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4%. Members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any benefits or continuing their monthly loan payment schedule into retirement.

Under the new Internal Revenue Service regulations, effective January 1, 2004, the Division changed its pension loan repayment policy: Members who take multiple loans must repay the outstanding balance of the original loan, and all subsequent loans taken before the original loan is completely paid off, within a period not to exceed 5 years from the issuance of the first loan taken after January 1, 2004. Failure to repay the loan within the five-year period will result in the unpaid balance being declared a taxable distribution.

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 statements of changes in fiduciary net assets.

Cash and Cash Equivalents:

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, also requires that deposits held in financial institutions be categorized to indicate the level of custodial risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all State bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2004 and 2003, which include funding for the July 1, 2004 and 2003 retirement payroll, are designated Category 3.

(3) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 18:66 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. In accordance with legislation passed in 2001 (Chapter 133, P.L. 2001), the employee contribution rate was lowered to 3% effective January 1, 2002. Prior to this date, employees had been contributing at a rate of 4.5%. The rate returned to the normal rate of 5% effective January 1, 2004 per statute since there are no longer surplus assets available in the Fund. Employers are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. Beginning 1996, the State has made an additional contribution to the Post-Retirement Medical Reserve Fund to ensure an increase in the fund balance of 1/2 of 1% of the salary of active state employees.

For fiscal year 2004, the 68% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State was not required to make a normal contribution to the Fund between the years 1997 and 2004. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset required normal contributions of the State of New Jersey and the local participating employers.

The State made a contribution of $424.75 million for fiscal year 2004 post-retirement medical (PRM). Legislation passed in 2002 (Chapter 11, P.L. 2002) allowed the State to use net assets in PRM Fund to cover required pay-as-you-go medical premiums.

To fund the benefit increases provided by Chapter 133, the legislation provided for the use of excess assets. A special benefit enhancement fund (BEF) was established from which the required normal contributions for the increased benefits will be charged. To fund the accrued liabilities incurred by the Fund, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets.

The BEF will also provide funding for the benefit increases under Chapter 353, P.L. 2001. Actuarially determined excess valuation assets will cover the additional accrued liability incurred by the retirement fund. No additional formula State contribution is required in fiscal year 2004; instead, that contribution will be covered by the BEF.

According to the Budget Appropriations Act of 2004, the State will pay pension obligations through a five-year phase-in. In fiscal year 2004, the State paid only 20% of the normal and accrued liability pension cost by using the BEF.

(4) FUNDS

This Fund maintains the following legally required funds:

Members' Annuity Savings and Accumulative Interest Fund (2004 - $6,430,036,107; 2003 - $6,038,217,700)

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 (2004 - $2,156,950,936; 2003 - $ 2,058,849,317)

The Contingent Reserve Fund is credited with the contributions of contributing employers other than post-retirement medical contributions. Interest earnings, after crediting the Accumulative Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund (2004 - $19,195,861,683; 2003 - $17,667,357,328)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, contributory group insurance premiums, and post-retirement medical premiums, including cost-of-living benefits and medical benefits for certain retirees, are paid. Upon retirement of a member, accumulated contributions, together with accumulated interest, are transferred to the Retirement Reserve Fund from the Members' 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 2004 and 2003) is credited to the Retirement Reserve Fund.

Special Reserve Fund (2004 - $282,911,620; 2003 - $0)

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 Fund, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund which amounted to $101.66 million and $103.13 million as of June 30, 2004 and 2003, respectively. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund (2004 - $100,156,283; 2003 - $101,541,730)

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.

Post-Retirement Medical Fund (2004 - $426,066; 2003 - $317,186)

The Post-Retirement Medical Fund is credited with employer contributions for post-retirement medical benefits, interest earnings on post-retirement medical reserves, and from which post-retirement medical premiums are paid.

Benefit Enhancement Reserve Fund (2004 - $553,807,335; 2003 - $682,877,235)

The Benefit Enhancement Reserve Fund is a special reserve fund from which required normal contributions to provide benefit increases under Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001 will be charged. The fund was established in 2003 and credited with excess assets equivalent to member contributions for fiscal years 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the Benefit Enhancement Fund. Additional transfers will be made, as required, to maintain a fund balance equal to the present value of expected additional normal contributions due to the increased benefits. The State will be required to make contributions to the Benefit Enhancement Fund on behalf of State and local employers if excess valuation assets are not available.

(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.

Schedule 1

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 (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL ((b - a) / c)
March 31, 1997	$22,045,481,579	$21,224,484,588	$(820,996,991)	103.9%	$5,771,763,164	(14.2%)
March 31, 1998	24,478,860,383	23,484,403,450	(994,456,933)	104.2%	5,989,748,156	(16.6%)
June 30, 1999	27,457,451,678	25,546,083,289	(1,911,368,389)	107.5%	6,254,198,406	(30.6%)
June 30, 2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.2%	6,571,641,181	(42.6%)
June 30, 2001	35,351,379,511	32,745,357,185	(2,606,022,326)	108.0%	6,948,381,383	(37.5%)
June 30, 2002	35,148,246,433	35,146,591,842	(1,654,591)	100.0%	7,348,993,141	0.0%
June 30, 2003	34,651,825,932	37,383,732,882	2,731,906,950	92.7%	7,702,854,159	35.5%

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 June 30, 2003 and June 30, 2002 actuarial valuations included the following:

	June 30, 2003	**June 30, 2002**
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, closed	Level percent, closed
Payroll growth rate for amortization	5.00%	5.00%
Remaining amortization period	30 years	1 year
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%

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

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[1]	PERCENTAGE CONTRIBUTED
1997	$372,060,546	$1,601,688,633[2]	430.5%
1998	297,219,462	—	0.0%
1999	314,671,482	258,816,649	82.2%
2000	368,904,564	—	0.0%
2001	—	—	N/A
2002	—	—	N/A
2003	194,435,594	—	0.0%
2004	686,284,850	—	0.0%

Notes to Schedule

(1) Excludes post-retirement medical contributions and contributions received from other State of New Jersey retirement systems or funds for certain members who transferred their eligible prior service credit to the Teachers' Pension and Annuity Fund.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund, in full or in part, required employer contributions.

(2) 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 Fiduciary Net Assets by Fund

Year ended June 30, 2004

	MEMBERS' ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	SPECIAL RESERVE FUND	CONTRIBUTORY GROUP INSURANCE PREMIUM FUND	POST-RETIREMENT MEDICAL FUND	BENEFIT ENHANCEMENT FUND	OTHER	TOTAL
Additions:									
Contributions:									
Members	$ 374,237,243	—	—	—	31,458,312	—	—	—	405,695,555
Employers	—	31,660,323	—	—	—	424,751,323	—	—	456,411,646
Other	—	—	—	—	—	—	—	—	—
Total contributions	374,237,243	31,660,323	—	—	31,458,312	424,751,323	—	—	862,107,201
Distribution of net investment income	485,109,049	1,272,869,828	1,566,712,017	282,911,620	390,984	45,104	44,559,211		3,652,597,813
Total additions	859,346,292	1,304,530,151	1,566,712,017	282,911,620	31,849,296	424,796,427	44,559,211	—	4,514,705,014
Deductions:									
Benefits	—	26,572,103	1,821,694,407	—	33,234,743	424,687,547	—	—	2,306,188,800
Refunds of contributions	27,239,740	1,497,980	—	—	—	—	—	—	28,737,720
Administrative expenses	—	8,788,960	—	—	—	—	—	—	8,788,960
Total deductions	27,239,740	36,859,043	1,821,694,407	—	33,234,743	424,687,547	—	—	2,343,715,480
Net increase (decrease) before transfers among reserves	832,106,552	1,267,671,108	(254,982,390)	282,911,620	(1,385,447)	108,880	44,559,211	—	2,170,989,534
Transfers among reserves:									
Retirements	(442,908,685)	(1,111,673,164)	1,554,581,849	—	—	—	—	—	—
Other	2,620,540	(57,896,325)	228,904,896	—	—	—	(173,629,111)	—	—
Net increase (decrease)	391,818,407	98,101,619	1,528,504,355	282,911,620	(1,385,447)	108,880	(129,069,900)	—	2,170,989,534
Net assets held in trust for pension and post-retirement medical benefits :									
Beginning of year	6,038,217,700	2,058,849,317	17,667,357,328	—	101,541,730	317,186	682,877,235	—	26,549,160,496
End of year	$ 6,430,036,107	2,156,950,936	19,195,861,683	282,911,620	100,156,283	426,066	553,807,335	—	28,720,150,030

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