

PUBLIC EMPLOYEES'  
RETIREMENT SYSTEM  
OF  
NEW JERSEY



1985  
*Annual Report*



**DEPARTMENT OF  
THE TREASURY**

**DIVISION OF  
PENSIONS**

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

20 West Front Street  
Trenton, New Jersey 08625

**BOARD**

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Consulting Actuaries, Inc.

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

Dear Sir:

The board of trustees of the Public Employee's Retirement System is pleased to present the Thirty-first Annual Report in compliance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

GENEVIEVE F. McMENAMEN,  
Chairperson

# *Annual Report*

Chapter 121, P.L. 1985, which became effective on April 9, 1985, permits temporary employees who have accrued at least one year of continuous service to be enrolled in the Public Employee's Retirement system.

Chapter 226, P.L. 1985, which was approved on July 2, 1985 and became retroactively effective back to April 9, 1985, permits temporary employees who became eligible to enroll in the Public Employees' Retirement System as a result of the enactment of Chapter 121, P.L. 1985, to purchase service credit for the temporary service that they had with their current employer rendered before April 9, 1985. Such employee is to be liable for the full cost of such purchase for the temporary service and the employer is not to be liable for any portion of such cost.

As a result of the annual election, Vincent J. McKenna and Angelina Siconoffi were elected to three-year terms commencing July 1, 1985.

## MEMBERSHIP

A summary of the membership activity for the fiscal year ended June 30, 1985, follows:

26,452—enrollments  
4,781—retirements  
17,827—active accounts terminated through  
separation from employment  
933—deaths before retirement

Comparative data on membership for selected June 30 periods since 1955 follow:

<u>June 30</u>	<u>Active</u>	<u>Retirants and Beneficiaries</u>	<u>Total</u>
1955	34,087	2,649	36,736
1960	50,576	7,116	57,692
1965	68,086	10,445	78,531
1970	113,866	13,298	127,164
1975	171,518	21,682	193,200
1980	205,038	35,185	240,223
1984	227,649	47,838	275,487
1985	236,060	50,939	286,999

### Retirements by Type and Option July 1, 1984—June 30, 1985

<u>Service</u>	<u>Early</u>	<u>Deferred</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Veteran</u>	<u>Accidental Death</u>	<u>Active Death</u>
2,630	240	136	20	153	1,207	1	0
	<u>Maximum</u>	<u>Option I</u>	<u>Option II</u>	<u>Option III</u>	<u>Option IV</u>		
	2,232	1,153	657	320	24		

### Retirement Payroll June 30, 1985

Regular Allowance—50,939 retirants and beneficiaries

Pension Adjustment Act—

Gross Payroll, month of June, 1985 \$ 18,631,816

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

<u>June 30</u>	<u>Number</u>	<u>Payroll</u>
1955	2,649	\$ 2,848,923*
1960	7,116	8,876,808*
1965	10,445	16,737,419*
1970	13,298	24,036,226*
1975	21,682	53,518,488*
1980	35,185	144,408,900*
1984	47,838	193,263,940*
1985	50,939	213,581,142*

\*Includes benefits paid under the provisions of the Pension Adjustment Act.

#### GROUP LIFE INSURANCE CLAIMS:

##### Active Members

<u>Number</u>	<u>Settlement</u>	<u>Amount</u>
856	Cash Lump Sum Reserve	\$40,282,253
8	Monthly Annuities	303,999
<u>864</u>	Total active member death claims	<u>\$40,586,252</u>

##### Retired Members

1,800	Regular Retirants (Death after age 60)—Lump Sum	\$ 3,780,565
56	Disability Retirants (Death before age 60)—Lump Sum	1,136,928
<u>1,856</u>	Total death claims—retirants	<u>\$ 4,917,493</u>
<u>2,720</u>	Total claims—active and retired members	<u>\$45,503,745</u>

## SUMMARY OF CLAIM CHARGES

### Noncontributory Plan:

Active Members	864	\$20,627,138
Retirants	1,856	4,917,494
	<u>2,720</u>	<u>\$25,544,632</u>

### Contributory Plan:

Active Members	<u>\$19,959,113</u>	<u>\$45,503,745</u>
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### Return of Contributions:

a) 17,976 members withdrew from the system and received a return of the pension contributions totaling	\$19,297,452
b) The survivors of 942 members who died before retirement received a return of the members' contributions totaling	\$ 6,086,550
c) Settlement of inactive accounts	209,597

### Loans:

47,521 members applied for and received loans on their accounts totaling	\$70,891,910
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## UNCLAIMED ACCOUNTS

Unclaimed accounts, June 30, 1984 .....	\$ 830,398
Memberships discontinued and not settled during 1984-85 .....	\$563,165
Memberships discontinued and settled in 1984-85 .....	<u>153,057</u>
Added in fiscal year 1984-85 .....	716,222
	<u>\$ 1,546,620</u>
Less:	
Cash settlements during fiscal year .....	\$203,704
Cash escheat to State Treasurer .....	0
Transferred to new accounts .....	29,820
	<u>233,524</u>
<b>BALANCE, JUNE 30, 1985 .....</b>	<b><u>\$ 1,313,096</u></b>

Lists of the new additions during 1984-85 have been sent to all employing units with a request that they circulate copies among their memberships in an effort to ascertain the whereabouts of the listed former members and advise the Division of Pensions.



# INVESTMENTS

<u>Value</u>	<u>Market</u>	<u>Book</u>	<u>Eff.</u>	<u>Rate</u>
<u>HOLDINGS:</u>	<u>Value</u>	<u>Value</u>	<u>Book</u>	<u>(%)</u>
			<u>%</u>	
U.S. Treasury Notes	\$ 1,581,866	\$ 1,587,251	8.68	
U.S. Treasury Bonds	7,867,661	9,058,170	7.08	0.2
Fed. Home Loan Mort. Corp.-CMO	9,937,502	9,867,248	12.09	0.2
Fed. National Mortgage Assn. Debs.	1,865,621	2,000,000	6.42	
Fed. Housing Admin. Series MM.	3,233	3,435	6.72	
Farmers' Home Admin.				
Insured Notes	490,711	616,718	5.69	
Industrial Bonds	91,837,476	114,415,708	7.36	2.9
Gas and Electric	132,282,182	172,490,387	6.02	4.3
Telephone	62,997,684	89,587,282	5.59	2.2
Water	1,244,847	1,650,000	4.80	
Finance Company—Senior				
Debt	13,220,040	15,223,404	5.97	0.4
Railroad Equipment				
Obligations	655,210	734,000	7.70	
Internat'l Bank Reconst				
and Develop	4,777,482	5,903,858	6.62	0.1
Government of Canada	1,419,375	1,499,056	6.90	
Provinces of Canada	7,616,622	9,655,281	7.37	0.2
Canadian Provincial				
Guaranteed	11,714,830	13,295,696	7.62	0.3
Municipals-General				
Obligation	148,258	154,781	2.97	
Municipals-Revenue	5,358	5,733	4.73	
FHA Single Family				
Mortgages	1,049,666	1,256,159	6.48	
VA Single Family Mortgages	1,813,945	2,159,572	6.54	0.1
FHA Multi-Family Mortgages	4,033,611	4,957,969	7.01	0.1
GNMA Mortgage Backed				
Certificate	200,527,298	208,464,822	10.36	5.4
GNMA MINI	16,562,249	15,538,481	11.57	0.4
GNMA II	58,807,440	54,615,852	12.80	1.4
GNMA MORTGAGE Backed				
Certificate GPM	10,686,040	11,311,199	9.89	0.3
Fed. Home Loan Mortgage				
Corp.-PC.	197,313,821	185,005,695	12.63	4.8
Capehart Mortgages	1,107,375	1,193,104	4.33	
Conventional Mtge.				
Backed Certif.	4,590,817	4,412,496	11.88	0.1
State Leased Buildings	164,443	164,443	4.00	
Units—Common Pension				
Fund A	1,757,112,317	1,263,406,147	4.88	31.4
Units-Common Pensions				
Fund B	1,586,995,220	1,614,411,903	10.53	40.1
Units-Cash Management				
Fund	182,704,492	182,704,492	7.95	5.1
<b>FUND TOTAL</b>	<b>\$4,373,134,692</b>	<b>\$3,997,350,342</b>	<b>8.29</b>	<b>100.0</b>

**PURCHASES**

	<u>Type</u>	<u>Par Value</u>	<u>Average Effective Rate</u>
<b>Long-Term</b>			
	Mortgages	\$108,028,388	13.22
	SUBTOTAL	<u>\$108,028,388</u>	<u>13.22</u>
<b>Short-Term</b>			
	Commercial Paper	\$ 63,600,000	9.91
	Time Certificates of Deposit	8,500,000	8.91
	Bankers Acceptance	15,500,000	8.91
	SUBTOTAL	<u>\$87,600,000</u>	<u>9.64</u>
Stock*		<u>-0-</u>	<u>-0-</u>
	<b><u>TOTAL PURCHASES</u></b>	<b><u>\$195,628,388</u></b>	<b><u>11.62</u></b>

**SALES**

<b>Long-Term</b>		
	Corporates	19,108,000
	Mortgages	50,874,973
	SUBTOTAL	<u>\$ 69,982,973</u>
Stock*		<u>-0-</u>
	<b><u>TOTAL SALES</u></b>	<b><u>\$ 69,982,973</u></b>

\*Book Value

**REDEMPTIONS AND PREPAYMENTS**

<u>Type</u>	<u>Par Value</u>
Industrials	\$ 2,338,584
Gas and Electric	27,000
Telephone	3,000
Canadian	436,000
Prepaid Mortgages	198,750
Farmers Home Admin. Ins. Notes	140,226
<b>TOTAL REDEMPTIONS AND PREPAYMENTS</b>	<b>\$ 3,143,560</b>

**MATURITIES****\$139,354,489****EXCHANGES**

For the year ended June 30, 1985, the fund exchanged the following:

Bonds having a par value of \$81,398,187 for other bonds having a par value of \$80,854,946.

	<u>Number of units</u>	<u>Cost</u>
<b>UNITS ACQUIRED IN COMMON PENSION FUND A</b>		
Purchased	<u>196,015</u>	<u>\$327,754,309</u>
<b>UNITS ACQUIRED IN COMMON PENSION FUND B</b>		
By Distribution of Income	<u>257,925</u>	<u>\$164,357,067</u>
<b>CASH MANAGEMENT FUND</b>		
Purchased and Received by Distribution of Income		<u>\$809,226,529</u>
Withdrawn		<u>\$803,056,934</u>

# STATEMENT OF ASSETS—JUNE 30, 1985

<b>Ledger Assets</b>		
Cash in Banks	\$ 2,842,031	
Investment Holdings	3,976,691,236	
Accrued Interest on Investments	55,542,294	
Loans Receivable—		
Retired Members	35,230	
Cash Management Fund—		
Contr. Grp. Ins. Prem. Fd.	20,700,000	
Employees' Contributions		
Receivable	22,092,471	
Loans to Members	89,864,719	
Local Employers' Contributions		
Receivable	119,455,425	
Local Expense Fund		
Receivable	4,985,594	
Receivable from Employers—		
Delayed Enrollments	1,089,235	
Dividend Receivable	16,694,054	
Pension Adjustment		
Receivable	4,030,194	
Accounts Receivable	276,247	
<b>Total Assets</b>		<b>\$4,314,298,730</b>
<b>Miscellaneous Liabilities</b>		
Pension Payroll Payable	\$ 14,555,600	
Pension Adjustment Payroll		
Payable	4,030,229	
Administrative Expense	6,614,838	
Contributory Grp. Ins.		
Prem. Fund	20,757,987	
Unearned Interest on Loans	3,315,566	
Supplemental Annuity		
Collective Trust	16,411	
Federal Tax Withheld—		
Lump Sum	(640)	
Canceled Checks	420,063	
Escrow Items	561,352	
Federal Tax Levies		
Payable	132	50,271,538
<b>Net Ledger Assets, June 30, 1985</b>		<b>\$4,264,027,192</b>

## DISTRIBUTION OF ASSETS

<b>Funds Derived from Members:</b>		
<b>Annuity Savings Fund</b>		
State Employees—A.S.F.	\$297,292,657	
State Employees—		
Clearing Account	19,493,913	\$316,786,570
Local Employees—A.S.F.	\$516,500,594	
Local Employees—		
Clearing Acct.	34,709,970	551,210,564
<b>Total Carried Forward</b>		<b>\$867,997,134</b>

# ASSETS (Continued)

Total Brought Forward		\$ 867,997,134	
Accumulative Int.—A.S.F.			
State Employees	108,379,300		
Local Employees	<u>171,834,845</u>	\$ 280,214,145	
Unclaimed Accounts		<u>1,313,095</u>	\$1,149,524,374
Funds Derived from Employers:			
Contingent Reserve Funds			
State Employees	\$506,897,084		
Local Employees	<u>1,047,635,489</u>	\$1,554,532,573	
Pension Adjustment Fund			
State Employees	\$ 68,593		
Local Employees	<u>81,956</u>	150,549	
Unclaimed Pension Adjustment Fund		<u>139,843</u>	1,554,822,965
Funds Derived from Members and Employers:			
Retirement Reserve Fund			
State Employees	\$623,133,548		
Local Employees	<u>896,578,499</u>	\$1,519,712,047	
Unclaimed Pension		<u>200,894</u>	1,519,912,941
Special Reserve Fund			<u>39,766,912</u>
Total Net Assets, June 30, 1985			<u>\$4,264,027,192</u>

**STATEMENT OF REVENUE AND EXPENDITURES**  
**JUNE 30, 1985**

Ledger Assets, June 30, 1984

\$3,741,297,863

**REVENUE**

<b>Pension Contributions:</b>			
<b>Annuity Savings Fund</b>			
State	\$ 51,361,655		
Local	91,894,899	\$143,256,554	
<b>Accumulative Interest</b>			
State	\$ 43,728		
Local	78,647	122,375	
Unclaimed Accounts		170,750	\$ 143,549,679
<b>Employers' Contributions:</b>			
<b>Contingent Reserve Fund:</b>			
<b>State</b>			
Transfer from other System	\$ 136,069		
Appropriation	106,723,772		
Delayed Enrollments	88,223		
Dividends Received—N.C.G.I.P.F.	4,574,839	\$111,522,903	
<b>Local</b>			
Employers' Contributions	\$156,654,518		
Add'l Employer Contributions	47,092		
Delayed Enrollments	317,199		
Transfers from Other Systems	99,059		
Dividends Rec'd N.C.G.I.P.F.	7,789,591	164,907,459	
Total Employers' Contrib. to C.R.F.		\$276,430,362	
<b>Minimum Pension Benefit:</b>			
State	\$ 67,661		
Local	80,951	148,612	
<b>Pension Adjustment Fund:</b>			
State	\$ 21,491,414		
Local	26,086,596	47,578,010	\$ 324,156,984
<b>Retirement Benefits Redeposited:</b>			
<b>Regular Allowances</b>			
State	\$ 284,829		
Local	407,220	\$ 692,049	
<b>Pension Adjustment Allowance</b>			
State	\$ 127,615		
Local	171,750	299,365	
Unclaimed Pension		33,244	
Unclaimed Pension Adjustment Allowances		23,151	1,047,809
Total Carried Forward			\$ 468,754,472

## REVENUE (Continued)

Total Brought Forward	\$ 468,754,472
<u>Gains-To Special Reserve Fund:</u>	
On Bond Redemptions and Sales	4,277,321
<u>Income:</u>	
Per Schedule	337,141,207
<u>TOTAL REVENUE</u>	<u>\$ 810,173,000</u>
NET LEDGER ASSETS 6/30/84 AND TOTAL REVENUE	<u>\$4,551,470,863</u>

## EXPENDITURES

Benefits Provided by Members:			
Accumulated Contributions Withdrawn			
Regular Withdrawals			
State	\$ 5,704,451		
Local	10,790,106	\$16,494,557	
Active Deaths			
State	\$ 1,257,830		
Local	3,371,860	4,629,690	
Transfer to Other Systems			
State	\$ 369,946		
Local	1,452,687	1,822,633	
Accumulative Interest Withdrawn:			
Regular Withdrawals			
State	\$ 954,099		
Local	1,848,796	2,802,895	
Active Deaths			
State	\$ 437,098		
Local	1,019,762	1,456,860	
Transfers to Other Systems			
State	\$ 74,533		
Local	383,880	458,413	
Unclaimed Accounts		209,596	\$ 27,874,644
Total Carried Forward			\$ 27,874,644

# EXPENDITURES (Cont'd)

<b>Total Brought Forward</b>			<b>\$ 27,874,644</b>
<b>Benefits Provided by Members and Employers:</b>			
<b>Retirement Allowances</b>			
State	\$72,422,668		
Local	<u>103,971,288</u>	\$176,393,956	
<b>Unclaimed Pensions</b>		<u>20,658</u>	<b>\$ 176,414,614</b>
<b>Minimum Pension Benefit</b>			
State		\$ 67,661	
Local		<u>80,951</u>	<u>\$ 148,612</u>
<b>Benefits Provided by Employers:</b>			
<b>Pension Adjustment Allowance</b>			
State	\$21,564,061		
Local	<u>26,197,106</u>	\$ 47,761,167	
<b>Contingent Reserve Fund</b>			
State	\$ 194,836		
Local	<u>3,658,444</u>	3,853,280	
<b>NonContributory Group</b>			
<b>Insurance-Death Benefits</b>			
State	\$ 9,094,690		
Local	<u>17,067,613</u>	26,162,303	
<b>Unclaimed Pension</b>			
<b>Adjustment Allowances</b>		<u>16,145</u>	<u>77,792,895</u>
<b>Losses—To Special Reserve Fund:</b>			
<b>On Bond Redemptions and Sales</b>			
			<u>\$ 5,212,906</u>
<b>Total Expenditures</b>			<u>\$ 287,443,671</u>
<b>Net Ledger Assets, June 30, 1985</b>			<u><u>\$4,264,027,192</u></u>



## ACTUARIAL EVALUATION

The information given below is taken from the valuation of March 31, 1984, showing the system's contributions (assets) and present and contingent benefits (liabilities) as of that date.

### ASSETS

**Present assets of system creditable to:**

**Retirement Reserve Fund:**

Credited to fund	\$1,253,437,469	
Add accrued interest creditable	57,931,607	
Add reserve transferable from Contingent Reserve Fund	14,780,612	\$1,326,149,688

**Annuity Savings Fund:**

Credited to fund	\$ 951,303,758	
Add accrued interest creditable	34,185,413	985,489,171

**Contingent Reserve Fund:**

Credited to fund	\$1,233,821,047	
Add accrued interest creditable	55,834,877	
Add excess interest earnings creditable	63,508,047	
Deduct reserve transferable to Retirement Reserve Fund	14,780,612	1,338,383,359

**Special Reserve Fund:**

Credited to fund	\$ 30,428,255	
Add excess interest earnings creditable	2,824,292	33,252,547

Total Present Assets

\$3,683,274,765

**Present value of prospective contributions of members to be made to Annuity Savings Fund**

\$1,222,493,176

**Present value of prospective contributions payable by the state and local employers to the Contingent Reserve Fund as follows:**

Future normal contributions	2,480,868,271
Future accrued liability contributions	202,570,774

Total Prospective Assets

3,905,932,221

**TOTAL ASSETS**

**\$7,589,206,986**

## LIABILITIES

Present value of benefits payable on account of beneficiaries or their dependents now drawing allowance from the Retirement Reserve Fund		\$1,326,149,688
Present value of benefits payable from contributions to the Annuity Savings Fund and the Contingent Reserve Funds:		
Service retirement allowance including early retirement and vesting benefits	\$4,890,861,727	
Ordinary disability retirement allowances	250,699,977	
Accidental disability retirement allowances	63,451,346	
Ordinary death benefits	588,591,487	
Accidental death benefits	6,892,388	
Return of members' contributions upon withdrawal before retirement	462,560,373	6,263,057,298
<b><u>TOTAL LIABILITIES</u></b>		<b><u>\$7,589,206,986</u></b>

## LEVEL OF FUNDING

With respect to the funding of the system, the following is an excerpt from page 19 of the actuarial valuation as of March 31, 1984.

In conjunction with the current valuation, the level of funding of the system, as measured by the ratio of valuation assets to projected liabilities, has been determined as follows:

	<u>State</u>	<u>Local Employers</u>
A. Projected Accrued Liabilities	\$1,483,982,683	\$2,242,571,352
B. Adjusted Value of Assets	\$1,364,579,436	\$2,160,554,730
C. Funding Level B ÷ A	92.0%	96.3%

Projected accrued liabilities include the present value of benefits payable on account of beneficiaries or their dependents (liabilities of Retirement Reserve Fund) plus the present value of

benefits accrued to the valuation date for active members including salary projection. The adjusted value of assets reflects employer contributions receivable and other miscellaneous amounts.

The retirement system believes that misleading inferences concerning the system's funding status may result from a comparison of the actuarial present value of accumulated system's benefits with the fair value of net assets available for system benefits. This is because the system's assets have been accumulated by making contributions equal to the current year's costs determined on an ongoing basis, while the determination of the actuarial present value of accumulated system benefits required by FASB #35 and 36 has been made using methods and assumptions which are not the same as those used to determine the pension costs for the current year. For example, the required method for determining the actuarial present value of accumulated system benefits fails to take into consideration future wage and salary increases which have been considered by the Actuary and the retirement system in determining the costs of the system. Furthermore, the fair value of net assets for system benefits will fluctuate, which may create erroneous impressions with respect to the long term progress on funding the retirement system. The retirement system is concerned that, from an ongoing perspective, the financial statements pursuant to FASB #35 and 36 materially overstate the funded status of the system and can lead employers, on one hand, to believe that a cutback in appropriation for funding may be proper, while leading employee organizations to recommend benefit liberalizations to be financed as a result of what appears to be a near-surplus financial position.

#### **CONTRIBUTORY INSURANCE**

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

In the administration of the program certain amounts derived from employee contributions have been left on deposit with the carrier for specific reasons. Though they are not assets of the system, a brief description of each deposit account, the opening balance at 7/1/83, and closing balance at 6/30/84 is noted below:

1. **Dividend Accumulation**—This is an account established by the board of trustees, as policyholder, into which dividends arising from the active life experience are deposited. Such funds could

- be used to forestall rate increases and used to reduce rates.
2. **Advance Premium**—Returned premiums are deposited in this account when the Special Reserve contains funds in excess of its contractual limit. Such money could be used to delimit rate increases or reduce rates.
  3. **Special Reserve**—This money is used to stabilize experience.

The Dividend Accumulation account earned interest at the rate of 10.0 percent during the policy year. The Special Reserve earned interest at the rate of 10.0 percent for the portion of the reserve held on July 1, 1982 and interest at the rate of 11.0 percent on the balance.

#### FUNDS ON DEPOSIT

	<b>Balance 6/30/83</b>	<b>Balance 6/30/84</b>
Dividend Accumulation	\$2,552,901	\$2,601,157
Advance Premium	195,983	244,776
Special Reserve	767,535	815,619







Public Employees' Retirement System  
State of New Jersey  
CN 295  
Trenton, N.J. 08625