

P24

PUBLIC EMPLOYEES'
RETIREMENT SYSTEM
OF
NEW JERSEY



1991
Annual Report

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STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY
Douglas C. Berman, *Treasurer*

DIVISION OF PENSIONS
Margaret M. McMahon, *Director*

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

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

Dear Sir:

The Board of Trustees of the Public Employees' Retirement System is pleased to present the Thirty-Seventh Annual Report in compliance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

**NORMA J. SAWYER,
Chairperson**

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SIGNIFICANT LEGISLATION

CHAPTER 137, LAWS OF 1991 provides certain early retirement incentive benefits to State employees who are members of the Alternate Benefit Program, Public Employees' Retirement System or Teachers' Pension and Annuity Fund. The basic requirements are that the member must be at least 50 years old with 25 years of service credit within the retirement system or at least age 60 with 20 years of service in the retirement system. The member must file a retirement application on or before August 1, 1991 with an effective date between April 1, 1991 and September 1, 1991.

Public Employees' Retirement System and Teachers' Pension and Annuity Fund members age 50 with 25 or more years of service credit will receive an additional five years of service credit added to their actual service credit. Eligible veterans within the Public Employees' Retirement System and Teachers' Pension and Annuity Fund will receive an incentive in the amount of 5/60ths of their final year's salary. Eligible Alternate Benefit Program retirees will receive an amount equal to 100 percent of their base annual salary at the time of their retirement.

The incentive for eligible retirees age 60 or older with at least 20 years of service credit but less than 25 years of service credit is that their premiums for the State Health Benefits Program will be paid by the State.

This law provides the capability of the employer and employee to extend or delay the effective retirement date until September 1, 1992 without losing the early retirement incentive benefits. This law was approved and became effective on May 13, 1991.

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

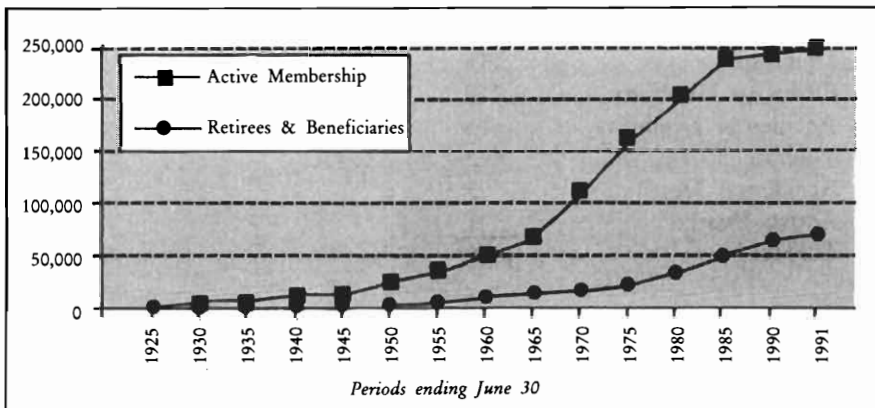
Until April 1, 1992, an eligible member could have purchased any portion of eligible temporary service. Since that date, the member is required to purchase the entire period of eligible temporary service. This law was approved and became effective May 20, 1991.

CHAPTER 153, LAWS OF 1991 permits Public Employees' Retirement System, Teacher's Pension and Annuity Fund and Police and Firemen's Retirement System members to purchase service credit for certain civilian employment or military service with the United States government or other states. In order to be eligible for such purchase, the civilian service must be the type of public employment that would be eligible for credit in the New Jersey State-administered retirement systems if the service was rendered in New Jersey. The member's cost will be computed by utilizing an actuarial factor and neither the state nor the employer will be liable for any costs associated with the financing of the pension adjustment or health care benefits for retirees when purchasing such service credit. This law was approved on June 6, 1991 and became effective on July 1, 1991.

MEMBERSHIP

- As of June 30, 1991, the active contributing membership of the system totaled 245,633*.
- There were 68,504 retirees and beneficiaries receiving annual pensions totaling \$328,291,968. (This includes benefits paid under the provisions of the Pension Adjustment Act.)
- Beneficiaries of 2,626 deceased active and retired members received lump sum death benefits in the amount of \$57,504,100.
- The system's assets totaled \$9,138,059,502 at the close of fiscal year 1991.

*Total Inactive Membership as of June 30, 1991 was 36,672.



MEMBERSHIP ACTIVITY

During fiscal year 1991, the following transactions were processed by the Division of Pensions on behalf of the membership of the Public Employees' Retirement System of New Jersey.

- **WITHDRAWAL**—17,156 members withdrew from the system.
- **LOANS**—69,196 members applied for and received loans on their accounts totaling \$122,007,470.
- **RETIREMENT**—4,875 members retired under the following retirement types and options:

<u>TYPE OF RETIREMENT</u>		<u>OPTION SELECTION</u>	
Service	3,699	Maximum	2,601
Early	249	Option 1	1,170
Deferred	219	Option 2	697
Ordinary Disability	219	Option 3	383
Accidental Disability	13	Option 4	24
Veteran	472	TOTAL	<u>4,875</u>
Accidental Death	3		
Active Death	<u>1</u>		
TOTAL	<u>4,875</u>		

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
State of New Jersey
Public Employees' Retirement System

We have audited the accompanying component unit financial statements of the State of New Jersey Public Employees' Retirement System (the "System") as of June 30, 1991 and 1990 and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

In our opinion, the information set forth in the required supplementary information for each of the six years in the period ended June 30, 1991, appearing on pages 24, 25, 26 and 27 is fairly stated in all material respects in relation to the component unit financial statements, from which it has been derived, taken as a whole. With respect to such information for each of the four years in the period ended June 30, 1985 appearing on page 27, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information for each of the four years in the period ended June 30, 1985 and express no opinion on it.

Ernst & Young
October 22, 1991

BALANCE SHEETS

State of New Jersey

Public Employees' Retirement System

	JUNE 30	
	1991	1990
ASSETS		
Investments, at cost:		
Bonds (market value of \$135,183,889 in 1991 and \$89,941,902 in 1990)	\$ 134,841,322	\$ 92,904,736
Common Pension Fund A (market value of \$4,995,700,585 in 1991 and \$4,605,864,603 in 1990)	3,295,302,836	3,084,587,484
Common Pension Fund B (market value of \$3,379,988,974 in 1991 and \$3,043,913,387 in 1990)	3,290,576,596	2,987,834,749
Common Pension Fund D (market value of \$109,875,173 in 1991)	110,544,984	
Cash Management Fund (market value of \$435,602,244 in 1991 and \$276,170,512 in 1990)	435,602,244	276,170,512
Mortgages (market value of \$1,343,213,350 in 1991 and \$1,300,124,572 in 1990)	1,313,899,862	1,293,310,556
TOTAL INVESTMENTS	<u>8,580,767,844</u>	<u>7,734,808,037</u>
Receivables:		
Contributions:		
Members	51,264,286	48,085,942
Employers	180,844,971	153,886,287
Investments:		
Accrued interest	93,766,422	86,074,802
Dividends	37,099,804	33,635,328
Members' loans	161,406,940	140,036,437
Other	12,512,787	10,457,276
TOTAL RECEIVABLES	<u>536,895,210</u>	<u>472,176,072</u>
Cash	<u>20,396,448</u>	<u>15,295,480</u>
TOTAL ASSETS	<u><u>\$9,138,059,502</u></u>	<u><u>\$8,222,279,589</u></u>

See notes to financial statements.

BALANCE SHEETS

State of New Jersey

Public Employees' Retirement System

	JUNE 30	
	1991	1990
LIABILITIES AND FUND BALANCES		
Liabilities:		
Retirement benefits payable	\$ 34,561,485	\$ 30,811,729
Death benefits payable	3,287,453	2,684,438
Payable for investments purchased	82,967,830	34,420,053
Accounts payable and accrued expenses	8,025,172	22,753,668
TOTAL LIABILITIES	<u>128,841,940</u>	<u>90,669,888</u>
Fund Balances:		
Members' annuity savings fund and accumulative interest	2,262,964,683	2,002,089,834
Contingent reserve fund	2,746,495,866	2,582,716,842
Retirement reserve fund	3,867,288,505	3,430,747,271
Special reserve fund	85,324,938	76,960,824
Contributory group insurance premium reserve fund	47,143,570	39,094,930
TOTAL FUND BALANCES	<u>9,009,217,562</u>	<u>8,131,609,701</u>
TOTAL LIABILITIES & FUND BALANCES	<u><u>\$9,138,059,502</u></u>	<u><u>\$8,222,279,589</u></u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND
BALANCES

State of New Jersey Public Employees' Retirement System

	FUND BALANCES		
	Members' ASF & Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund
REVENUES			
Contributions:			
Members	\$ 265,351,078		
Employers		\$ 460,280,938	
Investment revenue	137,443,939	264,025,532	\$ 253,914,378
Other			
TOTAL REVENUES	<u>402,795,017</u>	<u>724,306,470</u>	<u>253,914,378</u>
EXPENSES			
Benefit payments			328,291,968
Cost-of-living adjustment			67,745,835
Pension Adjustment Fund refund			
Withdrawals	35,670,336		
Noncontributory group insurance death benefits		34,776,386	
Transfers to other funds	6,205,645	14,577,509	
Administrative expense		17,687,159	
Health benefit premiums and other		14,865,920	
TOTAL EXPENSES	<u>41,875,981</u>	<u>81,906,974</u>	<u>396,037,803</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	360,919,036	642,399,496	(142,123,425)
Transfers between funds for:			
Retirements by members	(100,386,334)	(283,523,085)	383,909,419
Other	342,147	(195,097,387)	194,755,240
Fund balances at beginning of year	<u>2,002,089,834</u>	<u>2,582,716,842</u>	<u>3,430,747,271</u>
FUND BALANCES AT END OF YEAR	<u><u>\$2,262,964,683</u></u>	<u><u>\$2,746,495,866</u></u>	<u><u>\$3,867,288,505</u></u>

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND BALANCES

State of New Jersey Public Employees' Retirement System

FUND BALANCES			TOTALS	
Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund	Year Ended June 30	
			1991	1990
	\$30,299,010		\$ 295,650,088	\$ 262,118,679
\$ 8,364,114	4,880,611		460,280,938	390,190,104
		\$73,405	668,628,574	666,923,583
			73,405	78,944
<u>8,364,114</u>	<u>35,179,621</u>	<u>73,405</u>	<u>1,424,633,005</u>	<u>1,319,311,310</u>
			328,291,968	297,251,308
			67,745,835	61,375,179
				68,780,180
			35,670,336	36,943,730
			34,776,386	33,534,709
			20,783,154	17,591,937
			17,687,159	17,422,180
	27,130,981	73,405	42,070,306	84,271,923
	<u>27,130,981</u>	<u>73,405</u>	<u>547,025,144</u>	<u>617,171,146</u>
8,364,114	8,048,640	0	877,607,861	702,140,164
		0	0	0
		0	0	0
<u>76,960,824</u>	<u>39,094,930</u>	<u>0</u>	<u>8,131,609,701</u>	<u>7,429,469,537</u>
<u>\$85,324,938</u>	<u>\$47,143,570</u>	<u>\$ 0</u>	<u>\$9,009,217,562</u>	<u>\$8,131,609,701</u>

See notes to financial statements.

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STATEMENTS OF CHANGES IN FINANCIAL POSITION
 State of New Jersey
 Public Employees' Retirement System

	JUNE 30	
	1991	1990
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	\$ 877,607,861	\$ 702,140,164
Items not requiring (providing) financial resources:		
Accretion and amortization—net	(3,808,279)	(3,518,253)
Net gain on sales and maturities of long-term investments	(5,017,056)	(5,867,207)
Net realized gain on Common Pension Funds A, B and D	(49,568,923)	(96,244,820)
	819,213,603	596,509,884
Proceeds from sales and maturities of long-term investments	384,810,837	287,550,445
Decrease in Cash Management Fund		128,835,498
Increase in retirement benefits payable	3,749,756	2,897,058
Increase in payable for investments purchased	48,547,777	4,881,130
Increase in accounts payable and accrued expenses		4,426,621
Increase in death benefits payable	603,015	
Decrease in other receivables		7,945,250
TOTAL SOURCES OF FINANCIAL RESOURCES	1,256,924,988	1,033,045,886
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	1,012,944,654	985,352,714
Increase in Cash Management Fund	159,431,732	
Increase in contributions receivable	30,137,028	8,697,546
Increase in accrued investment income	11,156,096	15,090,222
Decrease in death benefits payable		925,992
Increase in other receivables	2,055,511	
Decrease in accounts payable and accrued expenses	14,728,496	
Increase in member loans	21,370,503	17,615,202
TOTAL USES OF FINANCIAL RESOURCES	1,251,824,020	1,027,681,676
NET INCREASE IN CASH	5,100,968	5,364,210
Cash, beginning of year	15,295,480	9,931,270
CASH, END OF YEAR	\$ 20,396,448	\$ 15,295,480

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

State of New Jersey

Public Employees' Retirement System

June 30, 1991

NOTE A—Significant Accounting Policies

The financial statements of the Public Employees' Retirement System (the "System") are prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

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

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

Investments in the Common Pension Funds represent commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants. These investments are valued at cost plus undistributed realized net gains of \$61,670,312; consisting of \$48,189,974 in Common Pension Fund A, \$13,336,237 in Common Pension Fund B and \$144,101 in Common Pension Fund D at June 30, 1991.

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

Mortgages are valued at the amount of unpaid principal balance of the loan, adjusted for amortization of premiums or accretion of discounts which are amortized over the life of the loans.

Purchases and sales of investments are reflected on a trade date basis. Realized gains and losses on sales of investments are determined by the average cost basis and recognized as investment income when sale occurs. Interest and dividend income on investments is recognized when earned.

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

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NOTE B—Description of the System

Organization: The System is a cost-sharing multiple-employer contributory defined benefit plan which was established as of January 1, 1955, under the provision of N.J.S.A. 43:15A. The System is considered a component unit of the State of New Jersey and is included along with other State-administered pension trust funds in the general purpose financial statements of the State.

The System's designated purpose is to provide retirement benefits, medical benefits for qualified retirees (which are subordinate to the retirement benefits) and other benefits to its members. Membership in the System is mandatory for substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction. The System's Board of Trustees is responsible for its organization and administration.

Membership in the System as of March 31, 1990, the date of the most recent actuarial valuation, was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>67,136</u>
Active members:	
Vested	92,654
Non-Vested	<u>169,715</u>
TOTAL ACTIVE MEMBERS	<u>262,369</u>

Loans Receivable: The System provides for member loans up to 50% of their accumulated member contributions. To obtain a loan, a member must make three years of contributions to the members' savings account. Repayment of loan balances is deducted from payroll checks and bears an annual interest rate of 4%. Benefit payments are utilized to repay any outstanding loan balance upon retirement, termination, or death.

Vesting and Benefit Provisions: The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The System provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after 8 to 10 years of service, except for medical benefits which vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of final average salary for each year of service credit. 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 of service credit or they may elect deferred retirement after achieving 10 years of service in which case benefits

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would begin the first day of the month after the member attains the normal retirement age.

The System provides specified medical benefits for members who retire after achieving 25 years of qualified service or under the disability provision of the System.

Members are always fully vested for their own contributions and after 3 years of service credit become vested for 2% of related interest 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 the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Legislation was passed in 1991 which provided early retirement incentives for State employees who meet certain age and service requirements and apply for retirement between April 1, 1991 and September 1, 1991. An employee who is at least 50 with a minimum of 25 years of service will receive an additional 5 years of service credit. An employee who is at least 60 with a minimum of 20 years of service will receive paid health coverage. The cost of the additional benefits, which has not been determined to date, will be added to the unfunded accrued liabilities of the State and is expected to be funded along with prior service cost over the remaining amortization period for the unfunded liability described in Note D.

Legislation enacted in 1990 required cost-of-living adjustments as well as certain health care benefits for retirees to be determined actuarially, retroactive to March 31, 1988, and requires the resulting liability to be funded within 30 years. Previously, cost-of-living benefits and post-retirement medical premiums were paid from the State of New Jersey Pension Adjustment Fund and the Health Benefits Program Fund, respectively, which were funded by the State and State-related employers on a pay-as-you-go basis.

In accordance with the legislation, the State Treasurer mandated that the System begin payment of these benefits as of March 1, 1990 and assume the obligation for cost-of-living benefits and health benefits for certain retirees retroactively to April 1, 1988. As a result, the System reimbursed both the State (General Fund) and local employers for these benefits for the period April 1, 1988 to February 28, 1990 in the amount of \$76,451,725 and \$82,498,075, respectively, which included interest at 7%.

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

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Information about the System, including vesting and benefit provisions is published in pamphlet format. Copies of these pamphlets are available from the State of New Jersey Division of Pensions.

NOTE C—Pension Benefit and Post-Retirement Medical Benefit Obligations

The following “pension benefit and post-retirement medical benefit obligations” are the actuarial present value of credited projected benefits. They are a standardized disclosure measure representing the present value of 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 most recent annual actuarial valuation dated March 31, 1990. The liability was determined as of March 31 and projected forward to June 30, 1990 allowing for increases in benefits and variations in the population during the three month period.

The projected pension benefit and post-retirement medical benefit obligations as of June 30, 1990 were:

	Pension Benefit Obligation	Post- Retirement Medical Benefit Obligation
	(In 000's)	
Benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 3,613,202	\$ 256,127
Current employees:		
Accumulated employees' contributions with interest	2,002,089	
Employer-financed vested	4,761,137	759,602
Employer-financed nonvested	<u>865,783</u>	<u>154,480</u>
Total benefit obligation, including cost-of-living adjustments	11,242,211	1,170,209
Net assets available for benefits at book value (market value of \$9,712,818)	<u>8,131,610</u>	
Unfunded pension benefit obligation	<u>\$ 3,110,601</u>	<u>\$1,170,209</u>

The above obligation was calculated based on actuarial assumptions of
a) a 7¾% discount rate compounded annually;

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- b) salary increases ranging from 6.75% at age 25 to 3.61% at age 69 which includes inflation, merit and productivity;
- c) assets valued at cost or amortized cost;
- d) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary;
- e) 2½% increase in cost-of-living benefit provisions; and
- f) medical premium increases of 10% for the next seven years and 7% thereafter.

There were no material changes in actuarial assumptions during the year.

NOTE D—Contribution Policy

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members, employers, and the State. Member contribution rates range from 4.96% to 9.91% of salary based on the members' age at date of enrollment which is reduced by 2% for salary subject to social security. Once members are assigned a rate, it is not normally adjusted.

In accordance with the provisions of N.J.S.A. 43:15A, the contribution policy requires State-related employers and the State to make a normal contribution and an accrued liability contribution determined by a qualified actuary. The actuary uses the "entry age normal frozen initial liability" to determine the method of funding. The normal contribution includes cost-of-living adjustments and the costs for medical premiums after retirement for qualified retirees and an amount that is required to fund non-contributory death benefits. As of March 31, 1990, the date of the most recent actuarial valuation, normal costs were determined to be \$379,125,095. The State appropriation for the year ended June 30, 1991, is based on the 1989 actuarial valuation and the State-related employer contributions are accrued on June 30, 1991, based on the most recent 1990 actuarial valuation.

Beginning in the 1990 plan year, the State and State-related employers were required to make contributions for qualified retirees towards the payment of cost-of-living adjustments and cost of medical premiums after retirement (see Note B). The present value of the unfunded frozen actuarial accrued liability for basic allowances and cost-of-living adjustments was \$1,483,148,936 as of March 31, 1990. Additional unfunded accrued liabilities were determined for post retirement medical premiums for qualified retirees in the amount of \$159,991,550. These amounts will be funded over a 29-year period as of March 31, 1990.

Total pension contributions for the year ended June 30, 1991 were \$725,632,016 (\$460,280,938 from employers and \$265,351,078 from members, or 7.8% and 4.5%, respectively, of annual covered compensation) including \$360,694,882 representing the recommended normal contribution amount and \$90,982,533 relating to the accrued liability funding.

Significant assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of pension benefit

You are [Viewing an Archived Copy from the New Jersey State Library](#) obligation discussed in Note C above with the exception of the discount rate, the rate of return on investment and salary increases, which were each 3/4 of 1% lower for contribution requirements.

The contributing employers as of March 31, 1990 were comprised of the following:

State	1
County agencies	82
Municipalities	592
School districts	557
Other public agencies	<u>434</u>
TOTAL	<u><u>1,666</u></u>

NOTE E—Description of Fund Balances

Members' Annuity Savings Fund and Accumulative Interest: The Members' Annuity Savings Fund and Accumulative Interest (ASF) is credited with all contributions made by active members of the System. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer which was 7% for the year ended June 30, 1991 and 6½% for the year ended June 30, 1990. After three years of participation, withdrawing members receive interest at an annual rate of 2% of their accumulative contribution with the remaining portion of interest forfeited.

Upon retirement of a member, the accumulated contributions plus interest are transferred to the Retirement Reserve Fund for subsequent benefit payments.

Upon death or withdrawal from active service before qualifying for retirement, accumulated contributions plus applicable interest are paid from the Members' Annuity Savings Fund.

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

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

Each year, the amounts necessary as determined by the actuary for the payment of retirement benefits are transferred from the Contingent Reserve Fund to the Retirement Reserve Fund. In addition, payments for noncontributory cash death benefits are made from the Contingent Reserve Fund. Chapter 6 P.L. 1990 provides that pension adjustment (cost-of-living) benefits and health care benefits for qualified retirees shall be funded through the Contingent Reserve Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits, including cost-of-living benefits and medical benefits for certain retirees are paid. Upon retirement of a member, accumulated contributions together with accumulated regular interest are transferred to the Retirement Reserve Fund from the ASF. 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 (7% for 1991 and 6½% for 1990) is credited to the Retirement Reserve Fund. Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Contingent Reserve Fund upon advice of the actuary. During 1990, a transfer amounting to approximately \$885,000,000 was made from the Contingent Reserve Fund to the Retirement Reserve Fund primarily due to the cost-of-living adjustment amendments discussed in Note B.

Special Reserve Fund: The Special Reserve Fund is the Fund to which any excess interest earnings and gains from sale and maturity of investments are transferred and against which any losses from the sale of securities are charged. The maximum limit on the accumulation of this account is 1% of the book value of the investments allocated to the System, excluding cash management fund investments allocated to the Contributory Group Insurance Premium Fund which amounted to \$48,724,063 at June 30, 1991. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund: The Contributory Group Insurance Premium Fund represents the accumulation of member 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 their first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for this coverage is .55 of 1% of salary.

NOTE F—Investments

The State of New Jersey Division of Investments under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions. All investments must conform to standards set by State law.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the System, through the State Treasurer, and custodian banks as agents for the System. State laws and policies set forth the requirements of such agreements and other

You are [Viewing an Archived Copy from the New Jersey State Library](#) particulars as to the size of the custodial institution, amount of the portfolio to be covered by the agreements, and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of investment risk assumed by the System at June 30, 1991. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Trust Department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name. As of June 30, 1991, all investments held by the System are classified as Category 1.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the System. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the System. The custodian banks as agents for the System maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the System.

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

A summary of investment securities as of June 30, 1991 and the approximate market values follows:

	<u>Book Value</u> (in 000's)	<u>Market Value</u> (in 000's)
Bonds:		
U.S. and Municipal Government bonds	\$ 5,876	\$ 6,133
Industrial bonds	594	579
Telephone bonds	7,742	7,190
Gas, electric, and water bonds	22,380	21,646
Finance companies—senior debt	500	500
Railroad equipment obligations	489	493
Other	97,260	98,643
SUBTOTAL	<u>134,841</u>	<u>135,184</u>
Common Pension Fund A	3,295,303	4,995,701
Common Pension Fund B	3,290,577	3,379,989
Common Pension Fund D	110,545	109,875
State of New Jersey Cash Management Fund	435,602	435,602
Mortgages	<u>1,313,900</u>	<u>1,343,213</u>
	<u>8,445,927</u>	<u>10,264,380</u>
TOTAL	<u><u>\$8,580,768</u></u>	<u><u>\$10,399,564</u></u>

Investments in excess of 5% of net assets are:

	<u>June 30, 1991</u>	<u>June 30, 1990</u>
	(in 000's)	(in 000's)
Common Pension Fund A	\$3,295,303	\$3,084,587
Common Pension Fund B	3,290,577	2,987,835

NOTE G—Income Tax Status

Based on a declaration of the Attorney General of the State of New Jersey, the System is a qualified plan as described in Section 401(a) of the Internal Revenue Code.

NOTE H—Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 24, 25, 26 and 27.

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
(in millions)

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

Pension Benefit Obligations

Plan Fiscal Year	(1) Net Assets Available For Benefits	(2) Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded	(5) Annual Covered Payroll	(6) Unfunded Benefit Obligation As A % Of Covered Payroll (4) ÷ (5)
				Benefit Obligation (2)-(1)		
1986	\$4,264.0	\$ 4,180.2	102.0%	\$ (83.8)	\$3,670.1	0%
1987	5,000.7	5,379.2	93.0	378.5	4,097.9	9.2
1988	5,823.5	6,094.0	95.6	270.5	4,485.0	6.0
1989	6,601.7	9,075.4	72.7	2,473.7	4,936.1	50.1
1990	7,319.4	10,248.3	71.4	2,928.9	5,436.4	53.9
1991	8,131.6	11,242.2	72.3	3,110.6	5,907.5	52.7

Post-Retirement Medical Premiums Obligation

Plan Fiscal Year	Net Assets Available For Benefits	Benefit Obligation	Percentage Funded	Unfunded Benefit Obligation
1990	\$0	\$1,133.1	0	\$1,133.1
1991	0	1,170.2	0	1,170.2

Analysis of the dollar amounts of net assets available for benefits, benefit obligation, and unfunded benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

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

Note—Beginning in 1989 the pension benefit obligation reflects the impact of funding cost-of-living adjustments and, accordingly, amounts related to fiscal 1989 have been revalued. Also in 1989 the System assumed the obligation for post-retirement medical premiums. See Note C to the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION
REVENUES BY SOURCE AND EXPENSES BY TYPE

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

REVENUES BY SOURCE

Plan Fiscal Year	Member Contributions	Employer Contributions	
		State	% of Annual Covered Compensation
1982	\$120,462,618	\$ 68,199,660	2.64%
1983	125,466,588	93,017,310	3.20
1984	133,854,283	105,579,827	3.34
1985	143,378,929	111,522,902	3.33
1986	163,182,225	111,995,151	3.05
1987	182,131,022	124,204,570	3.03
1988	199,595,206	137,200,192	3.06
1989	213,157,484	145,538,020	3.19
1990	234,318,478	166,203,287	3.06
1991	265,351,078	199,219,714	3.37

EXPENSES BY TYPE

Plan Fiscal Year	Benefits		Withdrawals & Adm.	Transfers to Other Ret. Systems	Total
	Retirement	Other*			
1982	\$121,239,874		\$21,353,016	\$ 2,956,873	\$145,549,763
1983	136,718,406		18,390,739	3,322,167	158,431,312
1984	156,136,932	\$ 22,608,231	21,266,155	6,774,381	206,785,699
1985	176,393,956	26,162,303	25,384,001	6,134,326	234,074,586
1986	196,568,346	78,946,313	27,761,760	4,140,456	307,416,875
1987	216,983,863	78,348,897	29,761,617	34,325,293	359,419,670
1988	242,959,969	86,179,691	33,116,926	16,528,404	378,784,990
1989	272,126,110	90,684,551	39,603,373	8,968,462	411,382,496
1990	297,251,308	153,392,469	54,365,910	17,591,937	522,601,624
1991	328,291,968	117,388,141	53,357,495	20,783,154	519,820,758

Contributions were made in accordance with actuarially determined contribution requirements.

*Other benefits includes cost-of-living adjustments, and medical benefits for certain eligible retirees beginning in fiscal 1986 and 1990, respectively. See notes to financial statements.

REVENUES BY SOURCE

Employer Contributions			
Local	% of Annual Covered Compensation	Investment Revenue	Total
\$115,314,112	4.47%	\$222,273,185	\$ 526,249,575
130,450,397	4.49	242,440,484	591,374,779
142,728,211	4.51	291,481,165	673,643,486
164,907,459	4.92	336,205,621	756,014,911
165,297,236	4.50	411,972,803	852,447,415
172,276,217	4.20	619,045,600	1,097,657,409
171,467,943	3.82	599,733,718	1,107,997,059
206,228,362	4.52	619,950,092	1,184,873,958
223,986,817	4.10	662,277,002	1,286,785,584
261,061,224	4.42	663,747,963	1,389,379,979

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Division of Pensions
Public Employees' Retirement System
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