

961

P32
You are Viewing an Archived Copy from the New Jersey State Library

POLICE AND FIREMEN'S
RETIREMENT SYSTEM
OF NEW JERSEY



1990
Annual Report

STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
Douglas C. Berman, *Treasurer*

DIVISION OF PENSIONS
Margaret M. McMahon, *Director*

**POLICE AND FIREMEN'S RETIREMENT SYSTEM
OF NEW JERSEY**

BOARD OF TRUSTEES

FRANK J. CASEY, Chairperson
THOMAS P. BRYAN, State Treasurer Representative
Michael DiSalvo
James Kopely
Ugo Trasferini
George Dilts
Susan Ricci
Marty Barrett

JANICE F. NELSON, *Secretary*
MERCER MEIDINGER HANSEN,
Consulting Actuaries, Inc.

MEDICAL BOARD

William Coleman, M.D.
Vacancy
Ralph Cagan, M.D.

NEW JERSEY DIVISION OF PENSIONS
50 West State Street
CN 295
Trenton, New Jersey 08625-0295

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

Dear Sir:

The board of trustees of the Police and Firemen's Retirement System is pleased to present the Forty-Fifth Annual Report in compliance with the provisions of N.J.S.A. 43:16A-13.

Respectfully submitted,

FRANK J. CASEY
Chairperson

SIGNIFICANT LEGISLATION

CHAPTER 219, LAWS OF 1989 eliminates the taxation of pension income received by non-residents under the New Jersey gross income tax. This exclusion includes any retirement allowances made by the State-administered retirement systems. This law was approved on December 29, 1989 and effective retroactive to January 1, 1989.

CHAPTER 320, LAWS OF 1989 gives persons who are retired from public retirement systems of this or any other state and are elected to public office in the state the option of enrolling in the retirement system covering the elected office. To do so, the elected official must stop receiving his or her pension or retirement allowance and death benefits under the former system. This law was approved on January 12, 1990 with a retroactive effective date of January 1, 1987.

CHAPTER 328, LAWS OF 1989 permits the voluntary withholding of New Jersey Gross Income taxes from the pensions paid by private and public pension plans. The minimum amount to be withheld is \$10.00 per month. This law was approved on January 12, 1990 to become effective on May 1, 1990.

CHAPTER 261, LAWS OF 1989 made many public and private employees in New Jersey eligible for a family leave from their employment without loss of employment status and with continuation of certain employment benefits. Administration and enforcement of the act is vested in the Division of Civil Rights in the Department of Law and Public Safety. The basic benefit provided by the Family Leave Act is that a covered employee is entitled to a family leave of 12 weeks in any 24-month period upon advance notice to the employer unless the employer denies the leave as authorized by law. Family leave is defined as a leave from employment to provide care made necessary by reason of birth or adoption of a child or the serious illness of a child, parent or spouse. This law was effective May 4, 1990.

CHAPTER 99, LAWS OF 1989 provides that, if a PFRS member dies 30 days or more after the application for disability retirement was filed with the system, such retirement will be effective if the application for retirement was received by the system prior to the date of death and the deceased member had terminated covered employment at least one day prior to the effective date of retirement. This law was filed and became effective on June 26, 1989.

CHAPTER 103, LAWS OF 1989 changed the definitions of the eligible titles for enrollment within the PFRS; increased the special retirement allowance from 60 percent to 65 percent of final compensation; changed the members' contribution rate to a flat 8 1/2 percent of compensation effective April 1, 1990; and altered the funding process for legislative appropriations and pension adjustments. With the exception of the member's flat rate of contributions, this law was approved and became effective on December 19, 1989.

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

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

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

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

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

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

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

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

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

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

HUNTERDON COUNTY—Lebanon Township.

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

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

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

[You are Viewing an Archived Copy from the New Jersey State Library](#)

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

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

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

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

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

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

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

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

Waterfront Commission of New York Harbor.

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

MEMBERSHIP STANDARD RETIREMENT PAYROLL

The following information concerns the active and retired participation in the PERS from its inception in 1955 to the present. Beginning with the 1989 Annual Report, total active and retired membership is reported using the latest actuarial valuation for purposes of consistency with the Audited Financial Statements also contained herein.

PERIOD ENDING	ACTIVE MEMBERS	RETIREES & BENEFICIARIES	TOTAL
June 30, 1950	4,545	4	4,549
June 30, 1955	7,843	38	7,881
June 30, 1960	11,475	139	11,614
June 30, 1965	14,501	355	14,856
June 30, 1970	18,442	664	19,106
June 30, 1975	25,080	1,795	26,875
June 30, 1980	26,714	4,467	31,181
June 30, 1985	28,885	8,000	36,885
June 30, 1989	33,600	11,504	45,104
June 30, 1990	34,059	12,246	46,305

STANDARD RETIREMENT PAYROLL June 30, 1990

Regular Allowance (12,246 retirees & beneficiaries)	\$15,309,689
Pension Adjustment Act	2,516,423
Part B Medicare Reimbursement Premiums	4,061
Gross Payroll, month of June 1990	<u><u>\$17,830,173</u></u>

The following represents the standard retirement payroll and average allowances for the June 30, 1990 period.

JUNE 30	NUMBER	PAYROLL (inc. Pension Adjustment Act)
1990	12,246	\$198,853,986

GROUP LIFE INSURANCE CLAIMS (Cash Basis)

Active Members

Number	Settlement	Amount	
55	Cash Lump Sum Reserve	\$ 7,204,918	
<u>0</u>	Monthly Annuities	<u>0</u>	
55	Total Active Member Death Claims		\$ 7,204,918

Retired Members

Number	Settlement	Amount	
198	Regular Retirees (death after age 55)—Lump Sum	\$ 2,662,919	
4	Disability Retirees (death before age 55)—Lump Sum	<u>366,576</u>	
<u>202</u>	Total Death Claims—Retirees		<u>3,029,495</u>
<u>257</u>	Total Claims—Active and Retired Members		<u>\$10,234,413</u>

SUMMARY OF CLAIM CHARGES (Cash Basis)

Noncontributory Plan

Active Members	55	\$ 7,204,918
Retirees	<u>202</u>	<u>3,029,495</u>
	257	\$10,234,413

Return of Contributions

a) 488 members withdrew from the system and received a return of the pension contributions totaling	\$ 3,567,142
b) The survivors of 55 members who died before retirement received a return of the members' contributions totaling	<u>1,636,632</u>
	\$5,203,774

Loans

15,159 members applied for and received loans on their accounts totaling	\$68,954,460
--	--------------

UNCLAIMED ACCOUNTS

Unclaimed Accounts, June 30, 1989		\$136,462
Memberships discontinued and not settled during 1989-90	\$ 912	
Memberships discontinued and settled in 1989-90	188	1,100
Added in fiscal year 1989-90	<hr/>	<hr/> 137,562
LESS:		
Cash settlements during fiscal year	\$ 122	
Cash escheat to State Treasurer	29,384	
Transferred to new accounts	<hr/> 66	\$ 29,572
BALANCE, JUNE 30, 1990		<hr/> <hr/> \$107,990

RETIREMENTS BY TYPE AND OPTION

July 1, 1989-June 30, 1990

Service	48
Special	725
Deferred	5
Ordinary Disability	77
Accidental Disability	29
Accidental Death	2
Heart Transplant	1
Court Ordered	0
Canceled	<hr/> 23
TOTAL	910

**REVISED VALUATION BALANCE SHEET SHOWING
THE ASSETS AND LIABILITIES OF THE
FUNDS OF THE PFRS**

as of June 30, 1989

ASSETS

PRESENT ASSETS OF SYSTEM CREDITABLE TO:

Retirement Reserve Fund:

Credited to fund \$1,675,154,423

Add reserve transferable from

Contingent Reserve Fund 569,547,779 \$2,244,702,202

Annuity Savings Fund

680,515,709

Pension Accumulation Fund excluding

contribution accruals:

Credited to fund \$1,894,206,770

Deduct reserve transferable to

Retirement Reserve Fund 569,547,779 1,324,658,991

Special Reserve Fund

39,724,838

Total

\$4,289,601,740

Prospective contribution to members

\$1,199,924,695

Prospective contributions to employers

including contribution accruals:

Normal contributions 1,695,593,840

Accrued liability contributions 2,328,580,855

5,244,099,390

TOTAL PRESENT ASSETS

\$9,513,701,130

LIABILITIES

Present value of benefits payable on account of beneficiaries now drawing allowances from the Retirement Reserve Fund		\$2,244,702,202
Lump sum death benefits payable upon death of current retirees		68,642,229
Present value of benefits payable on account of vested terminated members		5,462,965
Present value of benefits of prospective benefits for which reserves are being accumulated in the Annuity Savings Fund and the Pension Accumulation Fund:		
Service retirement allowances including special retirement and unclaimed accounts	\$5,239,201,955	
Ordinary disability retirement allowances	194,397,817	
Accidental disability retirement allowances	156,810,784	
Ordinary death benefits on account of members dying prior to retirement	237,843,158	
Lump sum death benefits payable upon death after retirement	126,394,260	
Accidental death benefits on account of members dying prior to retirement	18,999,995	
Withdrawal before retirement	136,547,509	
Pensions to beneficiaries of employees payable upon death after retirement	<u>1,084,698,256</u>	<u>7,194,893,734</u>
TOTAL LIABILITIES		<u><u>\$9,513,701,130</u></u>

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying component unit financial statements of the State of New Jersey Police and Firemen's Retirement System (System) as of and for the years ended June 30, 1990 and 1989. 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 combined 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 combined 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 System at June 30, 1990 and 1989, 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 balance sheets as of June 30, 1988, 1987 and 1986 and the related statements of revenues, expenses and changes in fund balances and changes in the financial position for each of the three years in the period ended June 30, 1988 (none of which are presented herein); and we expressed unqualified opinion on those component unit financial statements.

In our opinion, the information set forth in the required supplementary information for each of the three years in the period ended June 30, 1990 is fairly stated, in all material respects, in relation to the component unit financial statements from which it has been derived. With respect to such information for each of the five years in the period ended June 30, 1985, we have applied certain limited procedures which consisted of measurement and presentation of the supplementary information. However, we did not audit the information for each of the five years in the period ended June 30, 1985 and express no opinion on it.

Ernst & Young
October 15, 1990

BALANCE SHEETS

State of New Jersey

Police and Firemen's Retirement System

	JUNE 30	
	1990	1989
ASSETS		
Investments, at cost:		
Bonds (market value of \$31,609,300 in 1990 and \$45,780,113 in 1989)	\$ 33,467,535	\$ 48,677,138
Common Pension Fund A (market value of \$2,538,788,149 in 1990 and \$2,051,092,056 in 1989)	1,709,189,409	1,490,417,870
Common Pension Fund B (market value of \$1,677,779,468 in 1990 and \$1,528,622,698 in 1989)	1,664,904,148	1,481,696,971
Cash Management Fund (market value of \$224,637,071 in 1990 and \$323,219,418 in 1989)	224,637,071	323,291,418
Mortgages (market value of \$750,873,896 in 1990 and \$633,950,742 in 1989)	748,239,639	628,400,438
TOTAL INVESTMENTS	4,380,437,802	3,972,483,835
Receivables:		
Contributions:		
Members	20,082,975	17,440,224
Employers	193,860,444	172,734,509
Investments:		
Accrued interest	47,382,355	41,894,148
Dividends	18,516,728	14,981,449
Members' loans	140,314,995	124,099,458
Due from Pension Adjustment Fund		2,118,523
Receivable for investment sales		25,466,084
Other	820,059	111,330
TOTAL RECEIVABLES	420,977,556	398,845,725
TOTAL ASSETS	\$4,801,415,358	\$4,371,329,560

See notes to financial statements.

BALANCE SHEETS
State of New Jersey
Police and Firemen's Retirement System

	JUNE 30	
	1990	1989
LIABILITIES & FUND BALANCES		
Liabilities:		
Retirement benefits payable	\$ 17,774,938	\$ 15,473,126
Death benefits payable	248,363	836,342
Cash overdraft	1,283,793	1,408,814
Payable for investments purchased	200,790	35,042,109
Accounts payable and accrued expenses	4,455,529	2,193,413
TOTAL LIABILITIES	23,963,413	54,953,804
Fund Balances:		
Members' annuity savings fund	743,256,410	680,515,709
Pension accumulation fund	1,536,632,163	1,920,980,785
Retirement reserve fund	2,453,758,994	1,675,154,424
Special reserve fund	43,804,378	39,724,838
TOTAL FUND BALANCES	4,777,451,945	4,316,375,756
TOTAL LIABILITIES & FUND BALANCES	\$4,801,415,358	\$4,371,329,560

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

State of New Jersey Police and Firemen's Retirement System

	FUND BALANCES	
	Members' ASF & Accumulative Interest	Pension Accumulation Fund
REVENUES		
Contributions:		
Members	\$112,102,400	
Employers		\$ 236,481,315
Investment revenue		204,934,550
Pension Adjustment Fund		
TOTAL REVENUES	112,102,400	441,415,865
EXPENSES		
Benefit payments		
Cost-of-living adjustment		
Withdrawals	5,228,160	
Noncontributory group insurance death benefits		10,666,282
Pension Adjustment Fund refund		
Administrative expense		3,167,537
Other		3,135,734
TOTAL EXPENSES	5,228,160	16,969,553
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	106,874,240	424,446,312
Transfers between funds for:		
Retirements	(44,165,584)	(809,143,727)
Other	32,045	348,793
Fund balances at beginning of year	608,515,709	1,920,980,785
FUND BALANCES AT END OF YEAR	\$743,256,410	\$1,536,632,163

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND
BALANCES

State of New Jersey Police and Firemen's Retirement System

FUND BALANCES

TOTALS

Retirement Reserve Fund	Special Reserve Fund	Year Ended June 30	
		1990	1989
		\$ 112,102,400	\$ 99,577,335
		236,481,315	205,901,282
		361,466,781	339,742,912
		0	23,584,182
<u>152,452,691</u>	<u>4,079,540</u>	<u>710,050,496</u>	<u>668,805,711</u>
173,563,280		173,563,280	155,192,327
29,629,132		29,629,132	23,584,182
		5,228,160	6,260,776
		10,666,282	12,751,961
23,584,182		23,584,182	
		3,167,537	
		3,135,734	486,105
<u>226,776,594</u>		<u>248,974,307</u>	<u>198,275,351</u>
(74,323,903)	4,079,540	461,076,189	470,530,360
853,309,311		0	0
(380,838)		0	0
<u>1,675,154,424</u>	<u>39,724,838</u>	<u>4,316,375,756</u>	<u>3,845,845,396</u>
<u>\$2,453,758,994</u>	<u>\$43,804,378</u>	<u>\$4,777,451,945</u>	<u>\$4,316,375,756</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

State of New Jersey

Police and Firemen's Retirement System

	JUNE 30	
	1990	1989
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	\$461,076,189	\$470,530,360
Items not providing financial resources:		
Accretion and amortization—net	(2,151,319)	(2,423,913)
Gain on sales and maturities of long-term investments	(1,273,812)	(1,008,526)
Net realized gain on Common Pension Funds A and B	(53,664,416)	(70,551,933)
	<u>403,986,642</u>	<u>396,545,988</u>
Proceeds from sales and maturities of long-term investments	134,372,792	112,133,702
Decrease in Cash Management Fund	98,654,347	
Decrease in receivable for investment sales	25,466,084	28,548,851
Increase in retirement benefits payable	2,301,812	1,611,725
Increase (decrease) in accounts payable and accrued expenses	2,262,116	(136,022)
Decrease in other receivables	<u>1,409,794</u>	<u>5,563,567</u>
TOTAL SOURCES OF FINANCIAL RESOURCES	668,453,587	544,267,811
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	583,891,559	257,336,726
Increase in Cash Management Fund		215,105,113
Increase in contributions receivable	23,768,686	10,742,231
Increase in accrued investment income	9,023,486	4,629,667
Increase in members' loans	16,215,537	15,467,196
Decrease in death benefits payable	587,979	149,750
Decrease in payable for investments purchased	<u>34,841,319</u>	<u>39,300,275</u>
TOTAL USES OF FINANCIAL RESOURCES	668,328,566	542,730,958
NET INCREASE IN CASH	125,021	1,536,853
Cash overdraft, beginning of year	(1,408,814)	(2,945,667)
CASH OVERDRAFT, END OF YEAR	<u>(\$1,283,793)</u>	<u>(\$1,408,814)</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

State of New Jersey

Police and Firemen's Retirement System

June 30, 1990

NOTE A—Significant Accounting Policies

The financial statements of the Police and Firemen's Retirement System (System) are prepared on the accrual basis of accounting and conform to generally-accepted accounting principles. Financial statement footnote disclosures are in accordance with Statement Number 5 of the Governmental Accounting Standards Board, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers."

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

Investments in the Common Pension Funds 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 \$57,216,826; consisting of \$50,769,089 in Common Pension Fund A and \$6,447,737 in Common Pension Fund B at June 30, 1990.

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

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

Purchases and sales of investments are accounted for 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 are 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. Such costs for the year ended June 30, 1990 amounted to \$3,167,537. Prior to July 1, 1990, the System's assets available for paying benefits were not reduced for administrative expenses as all such expenses were allocated to the various State and State-related (local governmental agencies) employers who were responsible for such cost.

NOTE B—Description of the System

Organization: The System is a cost-sharing multi-employer contributory defined benefit plan which was established July 1, 1944 under the provisions of NJSA 43:16A. The System is considered a component unit of the State of New Jersey and is included along with other State-administered pension trust funds in the general purpose financial statement of the State.

The System's designated purpose is to provide retirement allowances to its members. Membership in the System is mandatory for substantially all full-time county and municipal police or firemen and State firemen or officer employees with police powers appointed after June 30, 1944. The System's Board of Trustees which is responsible for its organization and administration.

Membership in the System as of June 30, 1989, 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	11,504
Active members:	
Vested	17,287
Non-Vested	16,313
TOTAL ACTIVE MEMBERS	33,600

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

Vesting and Benefit Provisions: The vesting and benefits provisions are set by NJSA 43:16A and 43:3B. The System provides retirement as well as disability benefits. All benefits vest after 10 years of creditable service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final average compensation for each year of creditable service up to 30 years plus 1% for each year of service in excess of 30 years. Final average compensation equals the average compensation for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek special retirement after achieving 25 years of creditable service or they may elect deferred retirement after achieving 10 years of service in which case benefits would begin at age 55 equal to 2% of final average compensation up to 30 years plus 1% for each year of service in excess of 30.

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

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31 immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Legislation enacted during the current year required cost-of-living adjustments to be determined actuarially, retroactive to July 1, 1988 and requires the resulting liability to be funded within 30 years. Previously, the cost-of-living increases were paid from the State of New Jersey Pension Adjustment Fund which was previously funded by the State and State-related employers on a pay-as-you-go basis. As a result of the legislation, the total pension benefit obligation was revalued and increased \$919,221,000 to \$5,048,912,000 compared to \$4,129,691,000 as previously disclosed.

In accordance with the legislation, the State Treasurer mandated that the System begin payment on these benefits as of January 1, 1990 and assume the obligation for such benefits retroactive from June 30, 1988. As a result, the System reimbursed both the State (General Fund) and State-related employers for these benefits for the period July 1, 1988 to December 31, 1989 in the amount of \$877,861 and \$39,561,713, respectively, which included interest at 7%.

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

Information about the System, including additional vesting and benefit provisions, is available from the New Jersey Division of Pensions.

NOTE C—Pension Benefit Obligation

The following "pension benefit obligation" is the actuarial present value of credited projected benefits. It is a standardized disclosure measure representing the present value of pension benefits adjusted for the effects of projected salary increases estimated to be payable in the future based on employee service credit to date. This measure is independent of the actuarial funding method used to determine employer contributions to the System discussed in Note D.

The pension benefit obligation was determined as part of the most recent actuarial valuation dated June 30, 1989.

The projected pension benefit obligation as of June 30, 1989 was:

Pension benefit obligation:

Retirees and beneficiaries currently receiving
benefits and terminated employees not yet
receiving benefits

\$2,060,698,000

Current employees:

Accumulated employee contributions with interest

680,516,000

Employer financed—vested

2,216,974,000

Employer financed—non-vested

565,987,000

Total pension benefit obligation

5,524,175,000

Net assets available for benefits (fund
balance) at book value (market value of
\$4,555,931,010)

4,289,601,740

Unfunded pension benefit obligation

\$1,234,573,260

The above obligation was calculated based on actuarial assumptions of

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

There were no changes in actuarial assumptions compared to the March 31, 1988 revalued pension benefit obligation (see Note B).

NOTE D—Contribution Policy

The contribution policy is set by NJSA 43:16A and requires contributions by active members, State-related employers and the State. Beginning April 1, 1990, the uniform percentage contribution rate for all members is 8 1/2% of compensation. Prior to April 1, 1990, the contribution rate for members was established based on age at enrollment in the System.

In accordance with the provisions of NJSA 43:16A, 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 used the "Entry Age Normal Frozen Initial Liability" to determine the method of funding. The State appropriation for the year ended June 30, 1990, paid July 1, 1989, is based on the 1989 actuarial valuation. The normal contribution includes an amount that is required to fund non-contributory death benefits.

Beginning in the 1990 plan year, the State and State-related employers are 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). In connection with this change, the System's actuarial accrued liability was revalued as of June 30, 1988 by resetting the normal contribution at the entry age level. The unfunded frozen actuarial accrued liability for basic allowances is \$2,328,580,855 as of July 1, 1989 and is being funded over 30 years with increasing payments related to compensation.

As part of the revaluation, the annual interest assumption was increased from 6 1/2% to 7% commencing with the June 30, 1988 valuation at the direction of the State Treasurer. As a result of the revaluation, the 1988 actuarially determined contribution was revalued resulting in an increase of \$2,814,623 which was funded in 1990 by the State and State-related employers.

Total pension contributions for the year ended June 30, 1990 were \$348,583,715 (\$236,481,315 from employers and \$112,102,400 from members, or 19.67% and 9.32%, respectively, of annual covered compensation based on the most recent actuarial valuation) including \$139,028,702 representing the recommended normal contribution amount and \$90,541,686 relating to the accrued liability funding.

The contributing employers as of June 30, 1989 were:

State	1
Municipalities	447
TOTAL	448

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

NOTE E—Description of Fund Balances

Members' Annuity Savings Fund: The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System. Upon retirement of a member, the accumulated contributions are transferred to the Retirement Reserve Fund for subsequent payment of benefits.

Upon death or withdrawal from active service prior to qualifying for retirement, accumulated contributions are paid from the Members' Annuity Savings Fund (ASF).

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

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

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

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits are paid, including cost-of-living adjustments for certain retirees are paid. Upon retirement of a member, accumulated contributions are transferred to the Retirement Reserve Fund from the Pension Accumulation Fund. Annually, interest, as determined by the State Treasurer (6.75% for 1990 and 1989), is credited to the Retirement Reserve Fund. Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Pension Accumulation Fund upon advice of the actuary.

During 1990, a transfer amounting to approximately \$570,000,000 was made from the 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. This fund is limited to 1% of the book value of the investments allocated to the System. Amounts in excess of 1% are credited to the Pension Accumulation Fund.

NOTE F—Investments

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

The purchase, sale, receipt of income and other transactions affecting investments are governed by custodial agreements between the System through the State Treasurer and custodian banks as agents for the System. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, 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, 1990. Category 1 includes investments that are insured or registered or for which the securities are held by the System or their agency in the System's name. Category 2 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 names. 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, 1990, all investments held by the System are classified as Category 1.

Federal securities, including federal securities held as collateral on repurchase agreements, 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 custodial banks in trust for the System. The custodian banks, as agents for the System, maintain internal accounting records identifying the securities owned by the System.

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

A summary of investments as of June 30, 1990 and the market value by major class were as follows:

	Book Value in 000s	Market Value in 000s
Bonds:		
U.S. and Municipal Government bonds	\$ 3,411	\$ 3,493
Industrial bonds	374	355
Telephone bonds	3,364	2,992
Gas, electric and water bonds	17,424	16,057
Finance companies—senior debt	500	478
Railroad equipment obligations	245	238
Other	8,150	7,996
SUBTOTAL	33,468	31,609
Common Pension Fund A	1,709,189	2,538,788
Common Pension Fund B	1,664,904	1,677,779
State of New Jersey Cash Management Fund	224,637	224,637
Mortgages	748,240	750,874
TOTAL	\$4,380,438	\$5,223,687

Investments in excess of 5% of net assets are:

	June 30, 1990 in 000s	June 30, 1989 in 000s
Common Pension Fund A	\$1,709,189	\$1,490,418
Common Pension Fund B	1,664,904	1,481,697
State of New Jersey Cash Management Fund		323,291

NOTE G—Income Tax Status

Based on a declaration of the Attorney General of the State of New Jersey, the retirement systems are qualified plans 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 Systems' progress made in accumulating sufficient assets to pay benefits when due is presented as "Required Supplementary Information."

Note I—Subsequent Event

At June 30, 1990, the System had approximately \$829,599,000 of net unrealized appreciation (market value in excess of carrying value) in Common Pension Fund A. Subsequent to June 30, 1990, the stock market experienced significant volatility and decline in value.

As of October 15, 1990, the net unrealized appreciation in Common Pension Fund A at June 30, 1990 decreased \$439,558,000 to \$390,041,000. The effect on the market value of the remaining securities held at June 30, 1990 was immaterial.

Retirement benefits payable to the Plan participating are set by State formulas which are not affected by the market value of pension fund assets. Furthermore, management believes the current decline in market value will not have an adverse effect on future contributions as actuarial valuations are based on the carrying value of investments.

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
(in millions)

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

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

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

**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 revised. (See notes to the financial statements.)*

REQUIRED SUPPLEMENTARY INFORMATION **REVENUES BY SOURCE AND EXPENSES BY TYPE**

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

REVENUES BY SOURCE

Plan Fiscal Year	Employer Contributions		
	Member Contributions	State	% of Annual Covered Compensation
1981	\$ 45,743,544	\$ 4,255,519	.84%
1982	47,315,384	5,171,000	.93
1983	54,407,642	5,825,120	.97
1984	57,323,201	17,377,955	2.62
1985	61,485,398	15,416,056	2.14
1986	82,850,214	22,019,632	2.78
1987	88,606,176	22,269,550	2.53
1988	93,565,698	30,375,778	3.06
1989	99,577,335	38,104,826	3.52
1990	112,102,400	42,377,594	3.53

EXPENSES BY TYPE

Plan Fiscal Year	Benefits		Withdrawals & Adm.	Transfers to Other Ret. Systems	Total
	Retirement	Other*			
1981	\$ 41,113,552		\$3,145,450	\$ 476,565	\$ 44,735,567
1982	53,050,010		3,598,807	159,244	56,808,061
1983	64,024,547		3,090,823	268,167	67,383,537
1984	75,829,121	\$ 9,058,649	3,221,097	1,838,858	89,947,725
1985	89,511,080	7,894,013	3,695,546	188,230	101,288,869
1986	103,566,676	28,735,688	3,950,178	275,178	136,527,720
1987	119,136,734	31,835,426	4,330,250	774,983	156,077,393
1988	137,856,735	33,717,962	5,091,920	896,733	177,563,350
1989	155,192,327	36,751,961	5,829,504	884,591	198,658,383
1990	173,563,280	42,798,799	8,395,697	632,349	225,390,125

Contributions were made in accordance with actuarially determined requirements.

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

REVENUES BY SOURCE

Employer Contributions

Local	% of Annual Covered Compensation	Investment Revenue	Total
\$ 70,645,253	14.00%	\$106,437,598	\$227,081,914
75,927,698	13.61	130,110,619	258,533,701
105,251,969	17.55	142,693,728	308,178,459
106,676,591	16.05	165,204,918	346,582,665
111,708,250	15.48	187,361,940	375,971,644
116,445,451	14.68	231,905,058	453,220,355
158,194,932	18.01	331,440,601	600,511,259
170,203,780	17.15	328,047,351	622,192,607
167,796,456	15.50	339,742,912	645,221,529
194,103,721	16.15	361,466,781	710,050,496

Division of Pensions
Police and Firemen's Retirement System
State of New Jersey
CN 295
Trenton, N.J. 08625-0295