

**DEPARTMENT OF
THE TREASURY**

Andrew P. Sidamon-Eristoff
State Treasurer

**DIVISION OF PENSIONS
AND BENEFITS**

Florence J. Sheppard
Acting Director



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

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

**BOARD OF TRUSTEES
as of June 30, 2009**

JOHN SIERCHIO
Chairperson

FREDERICK J. BEAVER
State Treasurer's Representative

MARTY BARRETT

WAYNE HALL

VINCENT FOTI

SHERRYL GORDON

FRANK LEAKE

RICHARD MIKUTSKY

LAUREL BRENNAN

RICHARD LOCCKE

KELLIE KIEFER-PUSHKO
Deputy Attorney General

WENDY JAMISON
Board Secretary

LISA POINTER
Administrative Assistant

BUCK CONSULTANTS
Actuaries and Consultants

MEDICAL BOARD
David Jenkins, M.D.
William E. Ryan, M.D.

TO THE HONORABLE
CHRIS CHRISTIE
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor Christie:

The Board of Trustees of the

POLICE AND FIREMEN'S RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2009 Annual Report in accordance with the provisions of N.J.S.A. 43:16A-13.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'J. Sierchio', written over the printed name and title.
JOHN SIERCHIO
Chairperson

POLICE AND FIREMEN'S RETIREMENT SYSTEM

BOARD OF TRUSTEES



JOHN SIERCHIO
Chairperson



MARTY BARRETT



FREDERICK J. BEAVER
State Treasurer's Representative



WAYNE HALL



VINCENT FOTI



SHERRYL GORDON



FRANK LEAKE



RICHARD MIKUTSKY



KELLIE KIEFER-PUSHKO
Deputy Attorney General



LAUREL BRENNAN



RICHARD LOCCKE



WENDY JAMISON
Board Secretary



LISA POINTER
Administrative Assistant

SIGNIFICANT LEGISLATION

CHAPTER 19, P.L. 2009

Effective Date: March 17, 2009.

Description: This new law provides for an adjustment in the contributions that local employers must make to the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) during State fiscal year 2009.

Specifically, this law provides that the State Treasurer will reduce for local employers the normal and accrued liability contributions to 50 percent of the amount certified by the PERS and PFRS for payments due in State fiscal year 2009.

An employer that elects to pay the reduced normal and accrued liability contribution must adopt a resolution stating that the employer needs to pay the reduced contribution and providing an explanation of that need which must include (1) a description of its inability to meet the levy cap without jeopardizing public safety, health, and welfare or without jeopardizing the fiscal stability of the employer; or (2) a description of another condition that offsets the long term fiscal impact of the payment of the reduced contribution. An employer also must document those actions it has taken to reduce its operating costs, or provide a description of relevant anticipated circumstances that could have an impact on revenues or expenditures. This resolution must be submitted to and approved by the Local Finance Board after making a finding that these fiscal conditions are valid and affirming the findings contained in the employer resolution.

This law also provides that a local employer may pay 100 percent of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability.

The actuaries for PERS and PFRS will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the State fiscal year ending June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

In the area of local budget law, it law provides that for the respective fiscal year during which a local public employers' pension contributions to the PERS and PFRS is reduced, and for the year thereafter when the employers would again be subject to the full contribution requirement, the affected contribution payments will be exempt from the limits imposed on increases to municipal appropriations set forth in N.J.S.A.40A:4-45.3, the local budget "cap" law, and to the county tax levy set forth in N.J.S.A.40A:4-45.4. This law also amends current law concerning the calculation of the tax levy growth limitation for the purpose of an increase in the adjusted tax levy for a school district, and the exclusions added to the calculation for the adjusted tax levy for a local unit of government, to account for certain normal and accrued liability pension contribution increases.

Finally, the law requires the Director of the Division of Pensions and Benefits in the Department of the Treasury to report to the Governor and Legislature, within 180 days after its effective date, on the feasibility and consequences of creating individual employer accounts within the State-administered retirement systems.

CHAPTER 23, P.L. 2009

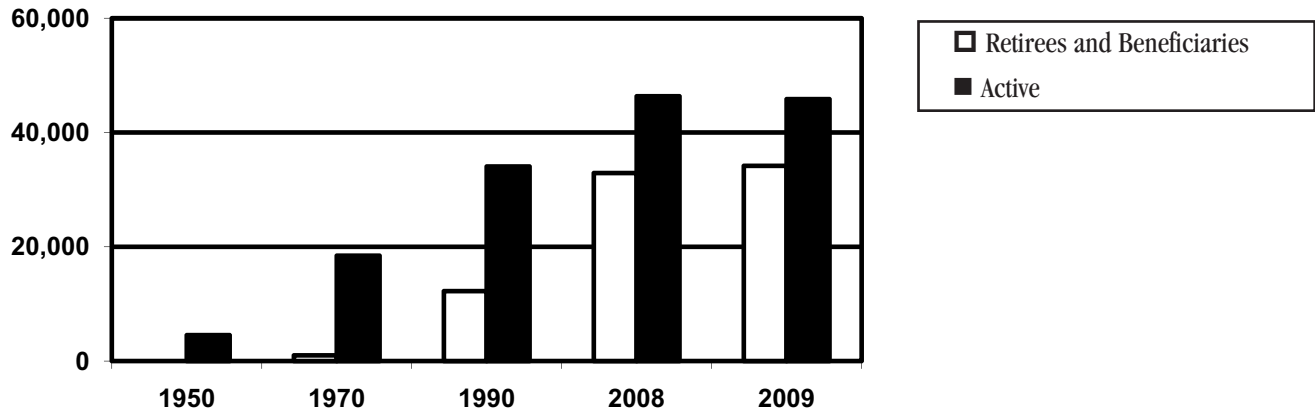
Effective Date: March 17, 2009, retroactive to June 1, 2008.

Description: This new law provides the same benefits to the survivors of an active member of the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), the Public Employees' Retirement System (PERS), or the Teachers' Pension and Annuity Fund (TPAF), who dies as a result of service in either the reserve component of the Armed Forces of the United States or the National Guard while on federal active duty as are currently provided to an active member of the respective retirement system, who dies as a result of an accident sustained in the actual performance of duty.

The provisions of this new law are retroactive to June 1, 2008.

MEMBERSHIP

- As of June 30, 2009, the active membership of the System totaled 45,843, which includes inactive membership of 1,732.
- During fiscal year 2009, there were 34,165 retirees and beneficiaries receiving annual pensions totaling \$1,431,935,930. (*This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act.*)
- Beneficiaries of active and retired members received lump sum death benefits in the amount of \$31,484,481.
- The System's assets totaled \$19,323,903,680 at the close of the fiscal year 2009.



MEMBERSHIP ACTIVITY

During fiscal year 2009, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Police and Firemen's Retirement System of New Jersey.

- Loans - 21,285 loans were issued to members. The total loans receivable as of June 30, 2009 is \$172,568,780.
- Retirement - 1,541 members retired under the following retirement types:

<u>TYPE OF RETIREMENT</u>		<u>OPTIONS SELECTIONS</u>	
Service	31	Maximum	1,512
Ordinary Disability	101	Option 1	0
Accidental Disability	135	Option 2	0
Accidental Death	3	Option 3	0
Special Retirement	1,113	Option 4	0
Deferred	10	Option A	0
Active Death	26	Option B	0
Involuntary Retirement	32	Option C	0
Chapter 428	84	Option D	0
Other	6	Other	29
Total	1,541	Total	1,541



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

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

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Police and Firemen's Retirement System (the System) as of June 30, 2009 and 2008, and the related statements of changes in fiduciary net assets for the years then ended. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Police and Firemen's Retirement System as of June 30, 2009 and 2008, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures* in 2008.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions (schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The 2009 schedule of changes in fiduciary net assets by fund (schedule 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 basic financial statements taken as a whole.

KPMG LLP

February 26, 2010

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Our discussion and analysis of the financial performance of the Police and Firemen's Retirement System (the System or PFRS) provides an overview of the System's financial activities for the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2009 - 2008

- Net assets held in trust for pension benefits decreased by \$2,972,288,240 as a result of fiscal year 2009's operations from \$21,061,217,855 to \$18,088,929,615.
- Additions for the year are negative \$1,496,041,362, which are comprised of member and employer pension contributions of \$1,239,793,077 and an investment loss of \$2,735,834,439.
- Deductions for the year are \$1,476,246,878, which are comprised of benefit and refund payments of \$1,469,720,368 and administrative expenses of \$6,526,510.

2008 - 2007

- Net assets held in trust for pension benefits decreased by \$508,765,850 as a result of fiscal year 2008's operations from \$21,569,983,705 to \$21,061,217,855.
- Additions for the year are \$857,918,938, which are comprised of member and employer pension contributions of \$1,197,131,087 and an investment loss of \$339,212,149.
- Deductions for the year are \$1,366,684,788, which are comprised of benefit and refund payments of \$1,360,403,112 and administrative expenses of \$6,281,676.

The Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets

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

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

(Continued)

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Financial Analysis

Summary of Fiduciary Net Assets

2009 – 2008

	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>
Assets	\$ 19,323,903,680	23,750,977,522	(4,427,073,842)
Liabilities	<u>1,234,974,065</u>	<u>2,689,759,667</u>	<u>(1,454,785,602)</u>
Net assets	<u>\$ 18,088,929,615</u>	<u>21,061,217,855</u>	<u>(2,972,288,240)</u>

The System's assets primarily consist of investments, securities lending collateral, contributions due from members and participating employers, accrued investment income and members' loans receivable. Between fiscal years 2008 and 2009, total assets decreased by \$4.4 billion or 18.6%. The total assets decreased due to a decrease in the fair value of investments and the securities lending collateral of \$4.8 billion and an increase in local employer's contributions receivable of \$373.0 million. Employer contributions receivables include contribution receivables from local employers for appropriations and early retirement incentive programs due April 1, 2010 and 2011.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, noncontributory group insurance premiums payable to the System's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of PFRS for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities decreased by \$1.5 billion or 54.1% due to a decrease in the securities lending collateral and rebates payable of \$1.5 billion, offset by an increase of \$10.6 million in retirement benefits payable and other payables.

Net assets held in trust for pension benefits decreased by \$3.0 billion or 14.1%.

Summary of Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>(Decrease)</u>
Assets	\$ 23,750,977,522	25,491,729,441	(1,740,751,919)
Liabilities	<u>2,689,759,667</u>	<u>3,921,745,736</u>	<u>(1,231,986,069)</u>
Net assets	<u>\$ 21,061,217,855</u>	<u>21,569,983,705</u>	<u>(508,765,850)</u>

The System's assets primarily consist of investments, securities lending collateral, contributions due from members and participating employers, accrued investment income and members' loans receivable. Between fiscal years 2007 and 2008, total assets decreased by \$1.7 billion or 6.8%. The total assets decreased due to a decrease in the fair value of investments and the securities lending collateral. Employer contributions receivables include contribution receivables from local employers for appropriations and early retirement incentive programs due April 1, 2009 and 2010.

(Continued)

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Liabilities consist of retirement benefits payable to retirees and beneficiaries, noncontributory group insurance premiums payable to the System's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of PFRS for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities decreased by \$1.2 billion or 31.4% due to a decrease in the securities lending collateral and rebates payable of \$1.3 billion, offset by an increase of \$82.5 million in retirement benefits payable due to full accrual of the July 1, 2008 payroll and other payables.

Net assets held in trust for pension benefits decreased by \$0.5 billion or 2.4%.

Summary of Changes to Fiduciary Net Assets

2009 – 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 326,491,066	310,259,367	16,231,699
Employer contributions	913,302,011	886,871,720	26,430,291
Net investment loss	<u>(2,735,834,439)</u>	<u>(339,212,149)</u>	<u>(2,396,622,290)</u>
Total additions	<u>(1,496,041,362)</u>	<u>857,918,938</u>	<u>(2,353,960,300)</u>
Deductions:			
Benefits	1,463,420,411	1,353,109,000	110,311,411
Refunds of contributions	6,299,957	7,294,112	(994,155)
Administrative and miscellaneous expenses	<u>6,526,510</u>	<u>6,281,676</u>	<u>244,834</u>
Total deductions	<u>1,476,246,878</u>	<u>1,366,684,788</u>	<u>109,562,090</u>
Changes in net assets	<u>\$ (2,972,288,240)</u>	<u>(508,765,850)</u>	<u>(2,463,522,390)</u>

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions increased by \$16.2 million or 5.2% due to normal salary and membership increases.

Employer contributions increased by \$26.4 million or 3.0%. In fiscal year 2009, employer contributions include accrued appropriations due April 1, 2010 and 2011 and early retirement incentive benefits billed to local employers.

The State made a contribution of \$13.04 million for fiscal year 2009, which was received in September 2009 after the close of the fiscal year. The amount contributed for fiscal year 2009 was equal to 4.8% of the actuarially determined statutory amount.

Net investment income decreased by \$2.4 billion or 706.5% due to depreciation of investments.

The total investment return for all pension funds was estimated to be 14.27% loss compared to 2.66% loss in the prior year.

(Continued)

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the System. Benefit payments increased by \$110.3 million or 8.2% primarily due to an increase in number of retirees receiving benefits. The amount of refunds processed decreased by \$1.0 million or 13.6%. Administrative expenses slightly increased by 3.9%.

Summary of Changes to Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 310,259,367	307,335,360	2,924,007
Employer contributions	886,871,720	825,687,477	61,184,243
Net investment income (loss)	(339,212,149)	2,777,158,696	(3,116,370,845)
Total additions	<u>857,918,938</u>	<u>3,910,181,533</u>	<u>(3,052,262,595)</u>
Deductions:			
Benefits	1,353,109,000	1,253,343,568	99,765,432
Refunds of contributions	7,294,112	6,081,982	1,212,130
Administrative and miscellaneous expenses	6,281,676	5,958,935	322,741
Total deductions	<u>1,366,684,788</u>	<u>1,265,384,485</u>	<u>101,300,303</u>
Changes in net assets	\$ <u>(508,765,850)</u>	<u>2,644,797,048</u>	<u>(3,153,562,898)</u>

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions increased by \$2.9 million or 1.0% due to normal salary and membership increases.

Employer contributions increased by \$61.2 million or 7.4%. In fiscal year 2008, employer contributions include accrued appropriations due April 1, 2009 and 2010 and early retirement incentive benefits billed to local employers.

The State made a contribution of \$128.03 million for fiscal year 2008. The amount contributed in fiscal year 2008 was equal to 50.64% of the actuarially determined amount.

Net investment income decreased by \$3.1 billion or 112.2% due to a decrease in the net appreciation of the fair value of investments.

The total investment return for all pension funds was estimated to be 2.66% loss compared to 17.1% gain in the prior year.

(Continued)

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the System. Benefit payments increased \$99.8 million or 8.0% primarily due to an increase in number of retirees receiving benefits. The amount of refunds processed increased by \$1.2 million or 19.9%. Administrative expenses increased by \$0.3 million or 5.4%.

Retirement System as a Whole

The overall funded ratios of 74.3% for fiscal year 2009 and 77.6% for fiscal year 2008 indicate that the System is reasonably funded.

Contacting System Financial Management

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

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

Statements of Fiduciary Net Assets

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets:		
Cash	\$ 4,271,644	791,490
Securities lending collateral	1,101,108,256	2,571,408,167
Investments, at fair value:		
Cash Management Fund	689,671,122	1,242,890,285
Common Pension Fund A	4,273,366,567	5,189,485,230
Common Pension Fund B	4,639,053,398	4,015,078,949
Common Pension Fund D	3,255,377,803	4,371,754,129
Common Pension Fund E	1,569,263,833	2,973,633,951
Mortgages	1,407,932,792	1,335,611,829
Total investments	<u>15,834,665,515</u>	<u>19,128,454,373</u>
Receivables:		
Contributions:		
Members	45,787,013	49,109,353
Employers	1,859,724,151	1,486,526,283
Accrued interest and dividends	162,071,758	159,844,392
Members' loans	289,175,976	336,952,249
Securities sold in transit	22,696,866	—
Other	4,402,501	17,891,215
Total receivables	<u>2,383,858,265</u>	<u>2,050,323,492</u>
Total assets	<u>19,323,903,680</u>	<u>23,750,977,522</u>
Liabilities:		
Accounts payable and accrued expenses	2,322,702	2,300,685
Retirement benefits payable	123,653,004	112,832,689
Noncontributory group insurance premiums payable	2,933,552	3,218,126
Securities lending collateral and rebates payable	1,106,064,807	2,571,408,167
Total liabilities	<u>1,234,974,065</u>	<u>2,689,759,667</u>
Net assets:		
Held in trust for pension benefits	<u>\$ 18,088,929,615</u>	<u>21,061,217,855</u>

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Additions:		
Contributions:		
Members	\$ 326,491,066	310,259,367
Employers	913,302,011	886,871,720
Total contributions	<u>1,239,793,077</u>	<u>1,197,131,087</u>
Investment income:		
Net depreciation in fair value of investments	(3,272,278,029)	(1,073,518,805)
Interest	410,740,336	571,936,551
Dividends	126,940,074	163,456,978
	<u>(2,734,597,619)</u>	<u>(338,125,276)</u>
Less investment expense	1,236,820	1,086,873
Net investment loss	<u>(2,735,834,439)</u>	<u>(339,212,149)</u>
Total additions	<u>(1,496,041,362)</u>	<u>857,918,938</u>
Deductions:		
Benefits	1,463,420,411	1,353,109,000
Refunds of contributions	6,299,957	7,294,112
Administrative and miscellaneous expenses	6,526,510	6,281,676
Total deductions	<u>1,476,246,878</u>	<u>1,366,684,788</u>
Change in net assets	<u>(2,972,288,240)</u>	<u>(508,765,850)</u>
Net assets – beginning of year	<u>21,061,217,855</u>	<u>21,569,983,705</u>
Net assets – end of year	<u>\$ 18,088,929,615</u>	<u>21,061,217,855</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2009 and 2008

(1) Description of the System

The State of New Jersey Police and Firemen's Retirement System (the System; PFRS) is a cost-sharing multiple-employer contributory defined benefit plan which was established as of July 1, 1944, under the provisions of N.J.S.A. 43:16A. The System is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

At June 30, 2008 and 2007, the dates of the most recent actuarial valuations, participating employers consisted of the following:

	2008	2007
State of New Jersey	1	1
Municipalities	588	582
Total	589	583

The System's designated purpose is to provide retirement, death and disability benefits 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 is primarily responsible for its administration.

According to State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate.

In 2008, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures*.

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Final compensation equals the compensation for the final year of service prior to retirement. Members may seek special retirement after achieving 25 years of creditable service or they may elect deferred retirement after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service. The annual benefit under special retirement is 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 70% of final compensation.

Widow/widowers of members retired since December 18, 1967 receive 50% of the retiree's final compensation. The minimum annual widow/widower's benefits of an accidental disability retiree prior to December 18, 1967 and of all retirees since December 18, 1967 is \$4,500.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

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 providing no survivor death benefits are payable.

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. The cost-of-living increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions.

Significant Legislation

Chapter 19, P.L. 2009, effective March 17, 2009 provided an option for local employers to contribute 50% of the normal and accrued liability contribution amounts certified by the PFRS for payments due in State fiscal year 2009. This law also provided that a local employer may pay 100% of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries for PFRS will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the State fiscal year ending June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Membership

Membership in the System consisted of the following at June 30, 2008 and 2007, the dates of the most recent actuarial valuations:

	2008	2007
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	33,151	31,837
Active members:		
Vested	29,056	28,668
Nonvested	16,410	16,463
Total active members	45,466	45,131
Total	78,617	76,968

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

(2) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System is accounted for using an economic resources measurement focus.

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

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of seven of the defined benefit plans (PERS, TPAF, JRS, PFRS, CPFPPF, SPRS and POPF). The Division of Investment separately reports the assets, liabilities and net assets of the underlying investment portfolio of the seven defined benefit plans in its Pension Fund report. The Division of Investment accounts included in the Pension Fund report are: Common Fund A, Common Fund B, Common Fund D, Common Fund E, Police and Firemen's Mortgage Program accounts and other investments owned directly by the seven defined benefit pension plans (the Pension Funds). Common Fund A invests primarily in domestic equity securities. Common Fund B invests primarily in domestic fixed income securities. Common Fund D invests primarily in foreign equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real assets and absolute return strategy investments. The Police and Firemen's Retirement System includes a mortgage loan program administered by the New Jersey Housing and Mortgage Finance Agency that provides participants with mortgages from the program at rates which are fixed by formula. The law establishing the program provides that the System may not sell the mortgages, and no independent market exists for them.

Investments are reported at fair value as follows:

- U.S. Government and Agency, Foreign and Corporate obligations – prices quoted by a major dealer in such securities.
- Common Stock and Equity Funds, Foreign Equity Securities, Forward Foreign Exchange Contracts – closing prices as reported on the primary market or exchange on which they trade.
- Money Market Instruments – amortized cost which approximates fair value.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

- Mortgages – all mortgages except for the Police and Firemen's mortgages are priced by a major dealer in such securities and reviewed by management for reasonableness. The Police and Firemen's mortgages are priced using another third-party administrator.
- Alternative investments (private equity, real estate, real asset, and absolute return strategy funds) – estimated fair value provided by the general partner and/or investment manager and reviewed by management. The inputs into the determinations of fair value (particularly for private equity and real estate) require significant management judgment or estimation. Because by their very nature, alternative investments are not always readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the value that would be used if a ready market for such investments existed. The development of fair value is further complicated by (1) the current lack of liquidity in the financial system and (2) the extreme levels of volatility in the market for public equity in general and for debt securities linked to these asset classes. For these reasons, the realized value received upon the sale of these investments in the open market might be different than the fair value reported in the financial statements.

Investment transactions are accounted for on a trade or investment date basis. Gains and losses from investment transactions are determined by the average cost method. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date.

The net asset value of Common Funds A, B, D and E (Common Funds) is determined as of the close of the last day of business of each month. Purchases and redemptions of participants' units are transacted each month within fifteen days subsequent to that time and are recorded at such net asset value.

Dividends and interest earned per unit are calculated monthly and distributed quarterly for Common Fund A and B. Dividends and interest earned per unit are calculated monthly for Common Fund D, and the income earned on Common Fund D units is reinvested. Income earned per unit is calculated monthly for Common Fund E, and the income earned on Common Fund E units is reinvested.

Securities Lending

The State Investment Council policies permit Common Funds A, B and D and several of the direct pension plan portfolios to participate in securities lending programs, whereby securities are loaned to brokers or other borrowers and, in return, the pension funds have rights to the collateral received. All of the securities held in Common Funds A, B and D, and certain securities held directly by the pension plans, are eligible for the securities lending program. Collateral received may consist of cash, letters of credit, or government securities having a market value equal to or exceeding 102% (U.S. dollar denominated) or 105% (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. For Common Funds A and B, in the event that the market value of the collateral falls below 101% of the market value of all the outstanding loaned securities to an individual borrower, additional collateral shall be transferred by the borrower to the respective funds no later than the close of the next business day so that the market value of such additional collateral, when added to the market value of the other collateral, shall equal 102% of the market value of the loaned securities. For Common Fund D, in the event that the market value of the collateral falls below the collateral requirement of either 102% or 105% (depending on

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

whether the securities are denominated in U.S. dollars or a foreign currency, respectively) of the market value of the outstanding loaned securities to an individual borrower, additional collateral shall be transferred in an amount that will increase the aggregate of the borrower's collateral to meet the collateral requirements. The securities lending contracts do not allow the Common Funds to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2009 and 2008, the Common Funds have no aggregate credit risk exposure to brokers because the collateral amount held by the Common Funds exceeded the market value of the securities on loan.

The contracts with the Common Funds' securities lending agent require them to indemnify the Common Funds if the brokers or other borrowers fail to return the securities or fail to pay the Common Funds for income distributions on the securities while they are on loan. The Common Fund D securities lending agent also indemnifies the Common Funds for any loss of principal or interest on the invested collateral. For any losses on the investment collateral in Common Funds A or B or other pension plan portfolios, the lending fee paid to the lending agent shall be reduced by 25% of the amount of such loss, up to an amount not to exceed 75% of the previous six months' securities lending fees. The securities loans can be terminated by notification by either the borrower or the Common Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment (or, in the case of floating rate notes, to the next interest rate reset date) of the cash collateral.

Derivatives

The Division of Investment, from time to time, utilizes forward foreign currency contracts, a derivative security, as a means to hedge against the currency risk in the Common Funds' foreign equity and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

The fair value of foreign forward currency contracts held directly by the Common Funds as of June 30, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Forward currency receivable	\$ 4,865,537,164	1,353,214,830
Forward currency payable	4,739,424,464	1,358,471,309
Net unrealized gain (loss)	126,112,700	(5,256,479)

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The Common Funds enter into covered calls when they write (or sell) call options on underlying stocks held by the Common Funds or stock indices. The Common Funds enter into covered put options when they purchase put options on underlying stocks held by the Common Funds or stock indices. The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of call options receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. The Common Funds had written call options on 25,737,000 shares, and these options had a fair value of \$10,862,850 as of June 30, 2009. The Common Funds had written call options on 5,661,100 shares with a fair value of \$895,504 as of June 30, 2008. The Common Funds owned 10,295,000 put option contracts on the S&P 500 index with a fair value of \$22,717,250 as of June 30, 2009. The Common Funds owned 880,000 put option contracts on the S&P 500 index with a fair value of \$72,334,000 as of June 30, 2008. Put option contracts are included in investments in the accompanying financial statements.

Certain alternative investment funds and partnerships may use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the Common Funds may have additional exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds. The Common Funds recognize the fair value of all derivative instruments as either an asset or liability in the accompanying financial statements with the offsetting gains or losses recognized in earnings.

Members' Loans

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

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

Chapter 92, P.L. 2007 eliminated the 4% fixed rate of interest for loans from the defined benefit plans and provided that the rate of interest will be set by the State Treasurer at a commercially reasonable rate as required by the Internal Revenue Code and permitted that an administrative processing fee may be charged for such loans. As such, effective January 1, 2008, an \$8.00 processing fee per loan was charged, and the new pension loan interest rate became 4.69% per year for year 2008 and 3.33% for year 2009.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Administrative Expenses

The System is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the System to the State of New Jersey, Department of the Treasury, and are included in the accompanying financial statements.

Miscellaneous expenses and reimbursements from the System that comprise various adjustments to member and employer accounts are incorporated into the administrative expense amounts included in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Funded Status and Funding Progress

The required supplementary information regarding the funded status and funding progress is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under State statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Actuarial Methods and Assumptions

In the June 30, 2008 and 2007 actuarial valuations, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the System. The actuarial assumptions included (a) 8.25% for investment rate of return and (b) 7.20% for projected salary increases as of June 30, 2008 and 2007.

	State		Local	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Actuarial valuation date				
Actuarial value of assets	\$ 2,316,017,361	\$ 2,215,697,407	\$ 20,437,541,909	\$ 19,500,229,156
Actuarial accrued liability	3,749,118,910	3,426,631,813	26,871,106,532	24,562,195,443
Unfunded actuarial accrued liability	1,433,101,549	1,210,934,406	6,433,564,623	5,061,966,287
Funded ratio	61.8%	64.7%	76.1%	79.4%
Covered payroll	\$ 527,495,741	\$ 527,556,519	\$ 3,068,758,436	\$ 2,932,283,180
Unfunded actuarial accrued liability as a percentage of covered payroll	271.7%	229.5%	209.6%	172.6%
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value	5 year average of market value	5 year average of market value
Amortization method	Level percent, open	Level percent, open	Level percent, open	Level percent, open
Payroll growth rate for amortization	4.00%	4.00%	4.00%	4.00%
Remaining amortization period	30 years	30 years	30 years	30 years
Actuarial assumptions:				
Interest rate	8.25%	8.25%	8.25%	8.25%
Salary range	7.20%	7.20%	7.20%	7.20%
Cost-of-living adjustments	1.80%	1.80%	1.80%	1.80%

(3) Investments

The System is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 25.68%, 21.41%, 26.25%, 19.43%, and 93.41%, respectively, of each investment total of the Pension Fund as of June 30, 2009.

The System is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 21.37%, 19.17%, 24.41%, 29.38%, and 91.89%, respectively, of each investment total of the Pension Fund as of June 30, 2008.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The Pension Funds' investments as of June 30 are as follows:

	<u>2009</u>	<u>2008</u>
Domestic equities	\$ 16,372,011,087	23,849,523,038
International equities	11,998,610,775	14,728,747,252
Domestic fixed income	20,694,709,131	20,276,259,245
International fixed income	30,760,749	2,913,035,116
Bank loan funds	1,027,830,211	—
Police and Fireman's mortgages	1,367,881,305	1,288,049,378
Private equity funds	2,982,420,463	2,850,167,142
Real estate funds	1,588,971,807	1,916,228,663
Absolute return strategy funds	2,743,253,999	3,739,013,571
Real asset funds	547,120,061	975,518,400
	<u>\$ 59,353,569,588</u>	<u>72,536,541,805</u>

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division of Investment and the role of the Council is to formulate investment policies. The Council issues regulations which establish guidelines for permissible investments which include domestic and international equities and exchange traded funds, covered call and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies, bank loans, interest rate swap transactions, credit default swaps, fixed income exchange traded funds, U.S. Treasury futures contracts, New Jersey State and Municipal general obligations, public authority revenue obligations, collateralized notes and mortgages, commercial paper, certificates of deposit, repurchase agreements, bankers acceptances, guaranteed income contracts, funding agreements, money market funds, private equity funds, real estate funds, other real assets, absolute return strategy funds, and the State of New Jersey Cash Management Fund (CMF). The CMF is a short-term cash fund and is open to state and certain nonstate participants.

The Pension Funds' investment in the Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Pension Funds.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The System's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Custodial credit risk, as it relates to investments, is the risk that in the event of a bank failure, the Pension Funds will not be able to recover the value of investments or collateral securities that are in the possession of the third party. The Pension Funds' investment securities are not exposed to custodial credit risk as they are held in segregated trust accounts in the name of the Pension Funds with the custodians.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments is evaluated by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in United States treasury and government agency obligations. Council regulations require minimum credit ratings for certain categories of fixed income obligations held directly by the Pension Funds and limit the amount that can be invested in any one issuer or issue.

(Continued)

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2009 and 2008

Effective July 1, 2008, these limits were as follows:

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of one issuer (3)
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of any one issuer (2)(3); not more than 10% of fund assets can be invested in this category
International government and agency obligations	Baa3	BBB-	BBB-	25%	Greater of 25% or \$10 million	—
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Common Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Credit default swap transactions (4)	A1	A+	A+	—	—	Nominal value of net exposure to any one counterparty shall not exceed 10% of fund assets
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Money market funds	—	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

(Continued)

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2009 and 2008

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions (5)	A1	A+	A+	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 2% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue
Non-convertible preferred stocks of US corporations (4)	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible stock of any one corporation
Bank loans (4)	Baa3	BBB-	BBB-	—	—	Not more than 10% of fund assets can be invested in this category

(1) Short term ratings (e.g. P-1, A-1, F1) are used for commercial paper and certificates of deposit.

(2) Prior to December 15, 2008, this restriction only applied to maturities exceeding 12 months.

(3) Prior to December 15, 2008, this restriction applied to debt only.

(4) Effective December 15, 2008.

(5) Prior to December 15, 2008, the minimum rating requirements were A3 (Moody's) and A- (S&P and Fitch).

Effective December 15, 2008, up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above. Prior to that, the limitation excluded bank loans and non-convertible preferred stock.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Effective September 5, 2006 through June 30, 2008, the following limits were effective:

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in any one issuer with maturities exceeding 12 months; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Aa3	AA-	AA-	25%	Greater of 25% or \$10 million	Not more than 1% of fund assets can be invested in any one issuer
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Money market funds	—	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions	A3	A-	A-	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 10% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue

(1) Short term ratings (e.g. P-1, A-1, F-1) are used for commercial paper and certificates of deposit.

Effective August 20, 2007, up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, finance company debt, bank debentures, international corporate obligations, collateralized notes, and mortgages and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above; prior to that, the limitation was 5% of the market value of Common Fund B.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category as of June 30, 2009 and 2008. The first table of 2009 is for bonds rated by Moody's. The second table of 2009 uses S&P ratings not rated by Moody's.

		June 30, 2009										
		Moody's rating										
(In thousands)		Aaa	Aa	A	Baa	Ba	B	Bb	C	Ca	Caa	Totals
United States Treasury TIPS	\$	3,317,891										3,317,891
United States Treasury bonds		2,238,574										2,238,574
United States Treasury strips		664,234										664,234
United States Treasury notes		49,612										49,612
Title XI Merchant Marine notes		1,828										1,828
Government agency obligations		200,236										200,236
Government agency strips		522,265										522,265
Floating rate notes				11,294	26,825	2,525	6,285				2,450	49,379
Corporate obligations		367,489	1,411,812	4,146,458	3,565,825	230,477	148,640	214	124	20,796	67,577	9,959,412
Convertible bonds					27,289	50	527				801	28,667
Federal farm credit/FHL bank bonds		74,151										74,151
Federal home loan discounted bonds		41,360										41,360
International corporate obligations			129,361	705,097	648,390	16,264	28,180		569		2,615	1,530,476
International bonds and notes		70,745	85,047									155,792
International floating rate notes							1,540					1,540
Foreign government obligations		29,885	303,592	24,817								358,294
Municipal bonds			11,131	23,954	1,574							36,659
Remic/FHLMC/FNMA		618,437										618,437
Mortgages/FHLMC/FNMA/GNMA		139,418										139,418
Asset backed obligations		32,499	29,604	98	105,046							167,247
SBA passthrough certificates		170,589			251		238					171,078
Private export obligations		24,985										24,985
High yield structured notes											79,076	79,076
	\$	<u>8,564,198</u>	<u>1,970,547</u>	<u>4,911,718</u>	<u>4,375,200</u>	<u>249,316</u>	<u>185,410</u>	<u>214</u>	<u>693</u>	<u>20,796</u>	<u>152,519</u>	<u>20,430,611</u>

		June 30, 2009								
		Standard & Poor's rating								
(In thousands)		A	AA	B	BB	BBB	CC	CCC	D	Totals
Corporate obligations	\$	26,627	—	—	—	1,194	1,009	1,803	1,101	31,734
Convertible bonds		—	—	—	1,376	—	—	—	—	1,376
International corporate obligations		—	—	570	923	—	—	—	45	1,538
Asset backed obligations		—	21,181	—	—	—	—	—	—	21,181
	\$	<u>26,627</u>	<u>21,181</u>	<u>570</u>	<u>2,299</u>	<u>1,194</u>	<u>1,009</u>	<u>1,803</u>	<u>1,146</u>	<u>55,829</u>

The 2009 tables above do not include certain domestic and international corporate obligations including certain exchange traded funds (ETFs) totaling \$239,029,550 which invest in an underlying portfolio of fixed income securities and do not have a Moody's, Standard & Poor's or Fitch rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)	June 30, 2008						
	Moody's rating						
	Aaa	Aa	A	Baa	Ba	B	Caa
United States Treasury TIPS	\$ 3,573,893	—	—	—	—	—	—
United States Treasury bonds	3,914,404	—	—	—	—	—	—
United States Treasury strips	622,327	—	—	—	—	—	—
Title XI merchant marine notes	2,646	—	—	—	—	—	—
United States government agency Federal home loan bank notes and bonds	78,910 120,820	— —	— —	— —	— —	— —	— —
Federal home loan discounted bonds	6,670	—	—	—	—	—	—
Floating rate notes	28,070	—	—	—	—	—	—
Tennessee Valley Authority strips	166,919	—	—	—	—	—	—
Domestic corporate obligations	428,516	674,633	3,024,990	2,642,103	90,580	41,315	84,813
Domestic corporate discounted obligations	105,177	—	4,879	—	—	—	—
International corporate obligations	—	—	205,817	193,352	—	—	—
Real estate investment trust obligations	—	—	—	19,391	—	—	—
Finance company debt	385,235	476,076	744,296	268,772	—	86,584	64,347
Foreign government obligations	1,077,186	150,700	—	—	—	—	—
Foreign government discount obligations	879,287	—	—	—	—	—	—
Adjustable rate municipal bonds	31,000	135,665	135,000	—	—	—	—
International bonds and notes	298,755	20,274	67,775	19,889	—	—	—
Remic/FHLMC	546,377	—	—	—	—	—	—
Remic/FNMA	50,343	—	—	—	—	—	—
SBA pass-through certificates	100,373	—	—	—	—	—	—
GNMA mortgage backed certificates	148,306	—	—	—	—	—	—
FHLM mortgage backed certificates	440,058	—	—	—	—	—	—
FNMA mortgage backed certificates	448,589	—	—	—	—	—	—
Asset backed obligations	63,791	119,057	—	139,267	—	—	—
Private export obligations	85,742	—	—	—	—	—	—
Exchange traded securities	—	—	131,820	—	—	4,700	—
	<u>\$ 13,603,394</u>	<u>1,576,405</u>	<u>4,314,577</u>	<u>3,282,774</u>	<u>90,580</u>	<u>132,599</u>	<u>149,160</u>

The 2008 table does not include certain exchange traded funds (ETFs) totaling \$39,805,000 which invest in an underlying portfolio of fixed income securities and do not have a Moody's rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature within 270 days. Certificates of deposits and bankers acceptances are limited to a term of one year or less. Repurchase agreements must mature within 30 days. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The following tables summarize the maturities (or, in the case of Remics, Police and Firemen's Mortgages and mortgage-backed securities, the expected average life) of the fixed income portfolio as of June 30, 2009 and 2008:

(In thousands) Fixed income investment type	Total fair value	June 30, 2009 Maturities in years			
		Less than 1	1-5	6-10	More than 10
United States Treasury TIPS	\$ 3,317,891	—	—	—	3,317,891
United States Treasury bonds	2,238,574	—	—	—	2,238,574
United States Treasury strips	664,234	—	—	—	664,234
United States Treasury notes	49,612	—	—	49,612	—
Title XI merchant marine notes	1,828	—	—	—	1,828
Government agency obligations	200,236	—	—	—	200,236
Government agency strips	522,266	—	—	—	522,266
Floating rate notes	49,379	13,216	6,023	3,440	26,700
Corporate obligations	9,991,476	54,324	572,727	3,051,119	6,313,306
Convertible bonds	40,146	50	2,246	1,281	36,569
Federal farm credit/FHL bank bonds	74,151	—	—	74,151	—
Federal home loan discounted bonds	41,360	—	—	—	41,360
International corporate obligations	1,532,266	390	14,444	308,715	1,208,717
International bonds and notes	155,791	—	—	155,791	—
International floating rate notes	11,540	—	10,000	1,540	—
Foreign government obligations	368,205	15,174	24,623	75,192	253,216
Municipal bonds	36,659	—	—	—	36,659
Remic/FHLMC/FNMA	618,437	—	20,344	—	598,093
Police & firemen's obligations	1,367,881	—	—	—	1,367,881
Mortgages/FHLMC/FNMA/GNMA	139,419	—	7,340	4,224	127,855
Asset backed obligations	233,536	—	—	15,284	218,252
SBA passthrough certificates	171,078	—	238	170,840	—
Private export obligations	24,985	—	—	24,985	—
High yield structured notes	79,076	—	79,076	—	—
	\$ 21,930,026	83,154	737,061	3,936,174	17,173,637

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)	June 30, 2008				
	Total	Maturities in years			More than 10
		market value	Less than 1	1-5	
Fixed income investment type					
United States Treasury TIPS	\$ 3,573,893	—	—	369,231	3,204,662
United States Treasury bonds	3,914,404	—	—	—	3,914,404
United States Treasury strips	622,327	—	—	—	622,327
Title XI merchant marine notes	2,646	—	—	—	2,646
United States government agency	78,910	—	—	—	78,910
Federal home loan bank notes and bonds	120,820	—	—	38,492	82,328
Federal home loan discounted bonds	6,670	—	—	—	6,670
Floating rate notes	28,071	—	18,071	10,000	—
Tennessee Valley Authority strips	166,919	—	—	—	166,919
Domestic corporate obligations	6,986,947	4,993	756,272	1,655,983	4,569,699
Domestic corporate discounted obligations	110,056	—	8,234	—	101,822
International corporate obligations	399,169	—	—	69,560	329,609
Real estate investment trust obligations	19,391	—	19,391	—	—
Finance company debt	2,025,311	154,379	183,305	989,819	697,808
Foreign government obligations	1,227,887	70,477	230,400	45,001	882,009
Foreign government discount obligations	879,287	879,287	—	—	—
Adjustable rate municipal bonds	301,665	—	—	—	301,665
International bonds and notes	406,693	—	25,795	196,102	184,796
Remic/FHLMC	546,377	—	—	19,647	526,730
Remic/FNMA	50,343	—	—	—	50,343
SBA pass-through certificates	100,373	—	—	100,373	—
Police and Firemen's mortgages	1,288,049	—	—	—	1,288,049
GNMA mortgage backed certificates	148,306	—	—	—	148,306
FHLM mortgage backed certificates	440,058	6	181	1,820	438,051
FNMA mortgage backed certificates	448,589	339	2,146	11,959	434,145
Asset backed obligations	322,115	—	31,144	14,594	276,377
Private export obligations	85,743	12,547	21,219	51,977	—
	<u>\$ 24,301,019</u>	<u>1,122,028</u>	<u>1,296,158</u>	<u>3,574,558</u>	<u>18,308,275</u>

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Pension Funds invest in global markets. Effective August 20, 2007, the market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government and agency obligations, cannot exceed 30% of the market value of the Pension Funds; previously, this limitation was 22%. The market value of emerging market securities cannot exceed more than 1.5 times the percentage derived by dividing the total market capitalization of companies included in the Morgan Stanley Capital International (MSCI) Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Fund D. Not more than 10% of the market value of the emerging market securities can be invested in the common and preferred stock of any one corporation; the total amount of stock purchased of any one corporation cannot exceed 5% of its stock classes eligible to vote. Council regulations permit the Pension Funds to enter into foreign

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

exchange contracts for the purpose of hedging the international portfolio. The Pension Funds held forward contract receivables totaling approximately \$4.9 billion and payables totaling approximately \$4.7 billion (with a \$126 million net exposure) as of June 30, 2009. The Pension Funds held forward contracts totaling approximately \$1.4 billion (with a \$5.3 million net exposure) as of June 30, 2008.

The Pension Funds had the following foreign currency exposure as of June 30, 2009 and 2008 (expressed in U.S. dollars and in thousands):

Currency	June 30, 2009			
	Total fair value	Equities	Foreign government/ corporate obligations	Alternative investments
Australian dollar	\$ 656,680	656,680	—	—
Brazilian real	91,406	91,406	—	—
British pound sterling	1,557,089	1,542,240	—	14,849
Canadian dollar	186,979	186,979	—	—
Chilean peso	3,407	3,407	—	—
Czech koruna	7,828	7,828	—	—
Danish krone	186,258	186,258	—	—
Euro	3,706,589	3,484,999	29,885	191,705
Egyptian pound	19,003	19,003	—	—
Hong Kong dollar	457,362	457,362	—	—
Hungarian forint	7,456	7,456	—	—
Indonesian rupiah	31,511	31,511	—	—
Israeli shekel	14,258	14,258	—	—
Japanese yen	1,944,838	1,944,838	—	—
Malaysian ringgit	12,409	12,409	—	—
Mexican peso	9,001	9,001	—	—
Norwegian krone	176,722	176,722	—	—
Pakistan rupee	2,378	2,378	—	—
Philippines peso	711	711	—	—
Polish zolty	7,104	7,104	—	—
Singapore dollar	172,635	172,635	—	—
South African rand	89,543	89,543	—	—
South Korean won	105,001	105,001	—	—
Swedish krona	165,297	164,422	875	—
Swiss franc	879,433	879,433	—	—
New Taiwan dollar	10,823	10,823	—	—
Thailand baht	25,597	25,597	—	—
Turkish lira	39,062	39,062	—	—
	\$ 10,566,380	10,329,066	30,760	206,554

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

June 30, 2008				
Currency	Total market value	Equities	Foreign government obligations	Alternative investments
Australian dollar	\$ 614,583	456,834	157,749	—
Brazilian real	118,301	118,301	—	—
Canadian dollar	546,560	546,560	—	—
Chilean peso	1,286	1,286	—	—
Czech koruna	4,512	4,512	—	—
Danish krone	205,512	205,512	—	—
Euro	6,983,288	5,829,751	1,005,136	148,401
Egyptian pound	20,424	20,424	—	—
Hong Kong dollar	263,291	263,291	—	—
Hungarian forint	6,528	6,528	—	—
Indonesian rupiah	22,783	22,783	—	—
Israeli shekel	14,716	14,716	—	—
Japanese yen	2,822,687	1,943,400	879,287	—
Malaysian ringgit	18,557	18,557	—	—
Mexican peso	19,444	19,444	—	—
New Zealand dollar	18,052	18,052	—	—
Norwegian krone	451,099	451,099	—	—
Omani rial	1,991	1,991	—	—
Pakistan rupee	2,679	2,679	—	—
Philippines peso	1,050	1,050	—	—
Polish peso	9,910	9,910	—	—
Qatar rial	4,497	4,497	—	—
Singapore dollar	135,551	135,551	—	—
South African rand	69,675	69,675	—	—
South Korean won	110,363	110,363	—	—
Swedish krona	521,596	521,596	—	—
Swiss franc	1,460,269	1,460,269	—	—
New Taiwan dollar	13,978	13,978	—	—
Thailand baht	17,001	17,001	—	—
Turkish lira	27,871	27,871	—	—
British pound sterling	1,970,705	1,916,931	—	53,774
	<u>\$ 16,478,759</u>	<u>14,234,412</u>	<u>2,042,172</u>	<u>202,175</u>

The Pension Funds' interests in alternative investments may contain elements of credit, currency and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Effective August 18, 2008, Council regulations provide that not more than 28% of the market value of the Pension Funds can be invested in alternative investments, with the individual categories of real estate, real assets, private equity and absolute return strategy investments limited to 7%. Prior to that, the overall limitation was 18%. Not more than 5% of the market value of Common Fund E, plus outstanding commitments, may be committed to any one

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

partnership or investment, without the prior written approval of the Council. The investments in Common Fund E cannot comprise more than 20% of any one investment manager's total assets.

(4) Securities Lending Collateral

The System's share in the securities lending program is 22.99% and 20.04% of the total market value of the collateral as of June 30, 2009 and 2008, respectively.

The securities lending collateral is subject to various risks. Among these risks are credit risk, concentration of credit risk, and interest rate risk. Agreements with the lending agents require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue. These limits are consistent with Council regulations and internal policies for funds managed by the Division of Investment.

Effective December 15, 2008, the following limits became effective:

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	A2	A	A	10%	25%	—
Collateralized notes and mortgages	Aa	AA	AA	—	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances:						Certificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Domestic	A2/P-1	A/A-1	A/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A2	A	A	—	—	Limited to 5% of the assets of the collateral portfolio
Money market funds	—	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Effective September 5, 2006 through December 14, 2008, the following limits were effective:

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	—
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	—
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances:						Certificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	Limited to 5% of the assets of the collateral portfolio
Money market funds	—	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

Prior to December 15, 2008, all investments in the collateral portfolio matured or were redeemed within one year, except that up to 25% of the portfolio could be invested in eligible securities which matured within 25 months; provided, however, that the average maturity of all investments did not exceed one year. Effective December 15, 2008, all investments in the collateral portfolio must mature or be redeemed within one year.

Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 30 days. Certificates of deposit and banker's acceptances must mature in one year or less.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The collateral for repurchase agreements is limited to obligations of the U.S. Government or certain U.S. Government agencies, collateralized notes and mortgages and corporate obligations meeting certain minimum rating criteria.

Total exposure to any individual issuer is limited, except for U.S. Treasury and Government agency obligations. For money market funds, the total amount of shares or units purchased or acquired of any money market fund shall not exceed 5% of the shares or units outstanding of said money market fund. For Collateralized notes and mortgages, not more than 2% and 5% of the assets of the collateral portfolio shall be invested in the obligations of any one issuer and issue, respectively. For Guaranteed income contracts and funding agreements, the total investment in any one issuer shall be limited to 2.5% of the collateral portfolio. Prior to December 15, 2008, the Division of Investment set individual issuer limits for Commercial paper and Certificate of deposits; subsequently, the Division of Investment set issuer limits for all investments in the collateral portfolio.

For securities exposed to credit risk in the collateral portfolio, the following tables disclose aggregate market value, by major credit quality rating category as of June 30, 2009 and 2008.

		June 30, 2009							
		Rating							
(In thousands)		Aaa/AAA	Aa/AAA	Aa/AA	a/AA	Aa/A	A/A	A/AA	Not rated
Corporate obligations	\$	—	99,755	642,443	15,001	109,694	759,910	169,039	29,603
Commercial paper		—	—	—	—	—	—	—	199,970
Certificates of deposit		—	—	100,000	—	100,039	—	—	50,000
Guaranteed investment contracts		—	—	100,000	—	—	—	150,000	—
Repurchase agreements		—	—	—	—	—	—	—	1,726,824
Money market funds		151,555	—	—	—	—	—	—	315,697
United States agencies		70,020	—	—	—	—	—	—	—
Cash		—	—	—	—	—	—	—	11
	\$	<u>221,575</u>	<u>99,755</u>	<u>842,443</u>	<u>15,001</u>	<u>209,733</u>	<u>759,910</u>	<u>319,039</u>	<u>2,322,105</u>

At June 30, 2009, all investments in the collateral portfolio will mature in less than one year.

		June 30, 2008									
		Rating									
(In thousands)		Aaa/AAA	Aaa/AA	Aa/AAA	Aa/AA	Aa/A	A/A	AA/A	A/Baa	Baa/BBB	Not rated
Corporate obligations	\$	711,148	269,317	224,455	2,835,773	570,502	1,796,638	9,988	142,151	139,676	—
Commercial paper		—	—	—	—	200,000	—	—	—	—	—
Certificates of deposit		—	—	—	608,740	753,645	—	—	—	—	—
Repurchase agreements		—	—	—	—	—	—	—	—	—	3,110,553
Asset backed securities		431,457	—	—	104,024	—	—	—	—	—	—
Money market funds		507,192	—	—	—	—	—	—	—	—	377,979
Cash		—	—	—	—	—	—	—	—	—	315
	\$	<u>1,649,797</u>	<u>269,317</u>	<u>224,455</u>	<u>3,548,537</u>	<u>1,524,147</u>	<u>1,796,638</u>	<u>9,988</u>	<u>142,151</u>	<u>139,676</u>	<u>3,488,847</u>

At June 30, 2008, if an issuer and/or security have both a long-term and short-term rating, the short-term rating is presented.

(Continued)

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2009 and 2008

As of June 30, 2009, the Pension Funds had outstanding loaned investment securities with an aggregate fair value of \$4,666,568,972 and received cash collateral with an aggregate fair value of \$4,803,489,627 and noncash collateral of \$13,474,666. As of June 30, 2008, the Pension Funds had outstanding loaned investment securities with an aggregate fair value of \$12,580,839,859 and received cash collateral with an aggregate fair value of \$12,793,553,099 and non-cash collateral of \$70,403,098. In accordance with GASB accounting standards, the noncash collateral is not reflected in the accompanying financial statements. There were no borrower or lending agent default losses, and no recoveries or prior-period losses during the year.

(5) Contributions

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits (see significant legislation under note 1). Members contribute at a uniform rate of 8.5% of base salary.

The State made a contribution of \$13.04 million, which was received in September 2009 after the close of the fiscal year, excluding the State's contribution of non-contributory group insurance (NCGI) of \$6.98 million and others of \$0.37 million for fiscal year 2009. The State made a contribution of \$128.03 million, excluding the State's contribution of NCGI of \$5.48 million and others of \$0.48 million for fiscal year 2008. The amounts contributed for fiscal years 2009 and 2008 are equal to 4.8% and 50.64% of the actuarially determined statutory amounts, respectively.

(6) Funds

PFRS maintains the following legally required funds as follows:

Members' Annuity Savings Fund (2009 – \$2,975,572,733; 2008 – \$2,819,646,914)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System. Member withdrawals are paid out of this Fund.

Retirement Reserve Fund (2009 – \$16,897,010,406; 2008 – \$15,081,732,218)

The Retirement Reserve Fund is the account from which retirement benefits including cost-of-living adjustments are paid. Upon retirement of a member, accumulated contributions are transferred to the Retirement Reserve Fund from the Members' ASF. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal years 2009 and 2008) is credited to the Retirement Reserve Fund.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Special Reserve Fund (2009 – \$0; 2008 – \$0)

The Special Reserve Fund is a fund to which any excess earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are applied. The maximum limit on the accumulation of this account is 1% of the market value of the investments of the System. Amounts in excess of 1% are credited to the Pension Accumulation Fund.

Pension Accumulation Fund (2009 – \$-1,808,447,040; 2008 – \$3,146,137,229)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the Retirement Reserve Fund and the Special Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums and administrative expenses are made from this Fund.

Non-Contributory Group Insurance Premium Fund – Local (2009 – \$24,793,516; 2008 – \$13,701,494)

The Non-Contributory Group Insurance Premium Fund represents the accumulation of employer group insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the noncontributory death benefit program plus reserves held by the insurance carrier. Members are eligible by statute for the noncontributory group insurance plan in the first year of membership.

(7) Income Tax Status

Based on a May 2007 declaration of an outside tax council retained by the Attorney General of the State of New Jersey, the System complies with the qualification requirements of Section 401(a) of the Internal Revenue Code.

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Required Supplementary Information

Schedule of Funding Progress

(Unaudited - See accompanying independent auditors' report)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (overfunded) actuarial accrued liability (b - a)	Funded ratio (a / b)	Covered payroll (c)	Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll ((b - a) / c)
State:						
June 30, 1999	\$ 1,717,248,151	1,534,470,501	(182,777,650) ⁽¹⁾	111.9%	\$ 362,949,950	(50.4)%
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1	363,360,250	(60.0)
June 30, 2001	1,991,299,968	1,866,140,391	(125,159,577)	106.7	398,118,379	(31.4)
June 30, 2002	2,032,977,241	2,046,820,189	13,842,948	99.3	418,849,259	3.3
June 30, 2003	1,907,752,767	2,330,909,918	423,157,151 ⁽³⁾	81.8	447,470,022	94.6
June 30, 2004	1,940,936,459	2,509,192,584	568,256,125	77.4	450,406,301	126.2
June 30, 2005	2,005,752,079	2,815,620,221	809,868,142	71.2	482,460,402	167.9
June 30, 2006	2,082,930,162	3,082,176,677	999,246,515	67.6	506,084,434	197.4
June 30, 2007	2,215,697,407	3,426,631,813	1,210,934,406	64.7	527,556,519	229.5
June 30, 2008	2,316,017,361	3,749,118,910	1,433,101,549	61.8	527,495,741	271.7
Local:						
June 30, 1999	\$ 14,536,570,357	13,894,951,617	(641,618,740) ⁽¹⁾	104.6%	\$ 1,971,087,124	(32.6)%
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.8	2,055,781,766	(35.0)
June 30, 2001	16,083,153,842	16,056,446,646	(26,707,196) ⁽²⁾	100.2	2,163,590,060	(1.2)
June 30, 2002	16,392,195,411	17,181,142,310	788,946,899	95.4	2,275,130,620	34.7
June 30, 2003	16,447,380,691	18,422,073,072	1,974,692,381	89.3	2,393,467,444	82.5
June 30, 2004	16,762,453,668	19,769,046,766	3,006,593,098	84.8	2,524,859,162	119.1
June 30, 2005	17,372,138,294	21,388,972,326	4,016,834,032	81.2	2,619,347,468	153.4
June 30, 2006	18,281,315,556	22,907,522,660	4,626,207,104	79.8	2,772,915,465	166.8
June 30, 2007	19,500,229,156	24,562,195,443	5,061,966,287	79.4	2,932,283,180	172.6
June 30, 2008	20,437,541,909	26,871,106,532	6,433,564,623	76.1	3,068,758,436	209.6

Notes to schedule:

- (1) Adjusted to reflect the impact of legislation passed in fiscal year 2002 which retroactively affected the June 30, 1999 and 1998 valuations. Chapter 4, P.L. 2001 provides benefit enhancements for certain eligible members who retired prior to December 29, 1989. The unfunded accrued liability attributable to the increased benefits was exactly offset by the recognition of an additional amount of market value of assets in the determination of the actuarial value of assets for the July 1, 1999 valuation.
- (2) Chapter 44, P.L. 2001 reduced the contribution of local employers by \$150 million.
- (3) The original June 30, 2003 valuation was revised due to the change in economic assumptions which would affect the fiscal year 2006 employer contributions, and due to the impact of the Appropriation Act for fiscal year 2005 which reduced the State contribution rate from the original 40% to 30% of the statutory required contribution.

(Continued)

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

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited - See accompanying independent auditors' report)

Significant actuarial methods and assumptions used in the most recent 2008 and 2007 actuarial valuations include the following:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, open	Level percent, open
Payroll growth rate for amortization	4.00%	4.00%
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	7.20%	7.20%
Cost-of-living adjustments	1.80%	1.80%

The actuarial assumptions used in the June 30, 2008 valuation reflect the actuarial assumptions developed from the three year experience investigation for the period ending June 30, 2007.

The actuarial assumptions used in the June 30, 2007 valuation reflect the actuarial assumptions developed from the three year experience investigation for the period ending June 30, 2004.

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

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Schedule of Employer Contributions

(Unaudited - See accompanying independent auditors' report)

Year ended June 30,	Annual required contribution	Employer contributions ⁽¹⁾⁽⁴⁾	Percentage contributed
State:			
1999	\$ 93,920,617	\$ 23,730,087 ⁽²⁾	25.3%
2000	98,974,449	60,521,749 ⁽²⁾	61.1
2001	95,883,272	—	—
2002	103,580,989	—	—
2003	104,998,547	—	—
2004	118,297,232	22,215,429 ⁽²⁾	18.8
2005	161,455,508	49,326,846	30.6
2006	200,902,193	73,541,000	36.6
2007	216,570,332	127,404,777	58.8
2008	252,836,330	133,510,475 ⁽⁵⁾	52.8
2009	275,205,347	39,568,000	14.4
Local:			
1999	\$ 273,210,113	\$ 256,551,862	93.9%
2000	275,790,739	214,164,848	77.7
2001	249,746,232	75,670,018	30.3
2002	248,754,078	185,415 ⁽²⁾	0.1
2003	259,969,532	364,850 ⁽²⁾	0.1
2004	316,272,883	53,396,685 ⁽³⁾	16.9
2005	355,229,715	132,740,650 ⁽³⁾	37.4
2006	475,872,193	260,986,583 ⁽³⁾	54.8
2007	584,645,679	422,743,218 ⁽³⁾	72.3
2008	708,019,933	647,288,920 ⁽⁵⁾	91.4
2009	773,029,316	696,476,702	90.1

Notes to schedule:

- (1) Local employer contributions include contributions made by the State to provide funding for certain benefits payable to local participants.
- (2) In accordance with Chapter 115, P.L. 1997, all or a portion of the employer pension contribution was covered, in full or in part, by available excess valuation assets.
- (3) In accordance with Chapter 108, P.L. 2003, the local statutory required contributions for fiscal years 2004 through 2007 have been reduced.
- (4) Differences between the amounts in the employer contribution column in this schedule and the amounts recorded in the financial statements and footnotes are attributed to timing differences between the 2008 actuarial valuations and the actual amounts received in fiscal year 2009. Employer contributions per this schedule represent anticipated contribution amounts determined at the time the actuarial valuations were prepared and finalized prior to the end of fiscal year 2009. The financial statements and footnotes reflect the actual amounts received in 2009.
- (5) 2008 annual required contributions and employer contributions have been reduced in accordance with the provisions of the Appropriation Act for fiscal year 2008 for State contributions and Chapter 108, P.L. 2003 for local contributions.

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Schedule of Changes in Fiduciary Net Assets by Fund
Year ended June 30, 2009

	Members' Annuity savings Fund	Pension Accumulation Fund	Retirement Reserve Fund	Special Reserve Fund	Non-Contributory Group Insurance Premium Fund	Total
Additions:						
Contributions:						
Members	\$ 326,491,066	—	—	—	—	326,491,066
Employers	—	868,775,785	—	—	44,526,226	913,302,011
Total contributions	326,491,066	868,775,785	—	—	44,526,226	1,239,793,077
Distribution of net investment (loss) income	—	(4,057,911,970)	1,324,027,254	—	(1,949,723)	(2,735,834,439)
Total additions	326,491,066	(3,189,136,185)	1,324,027,254	—	42,576,503	(1,496,041,362)
Deductions:						
Benefits	—	—	1,431,935,930	—	31,484,481	1,463,420,411
Refunds of contributions	6,172,811	127,146	—	—	—	6,299,957
Administrative and miscellaneous expenses	—	6,526,510	—	—	—	6,526,510
Total deductions	6,172,811	6,653,656	1,431,935,930	—	31,484,481	1,476,246,878
Net increase (decrease) before transfers among reserves	320,318,255	(3,195,789,841)	(107,908,676)	—	11,092,022	(2,972,288,240)
Transfers among reserves:						
Retirements	(165,479,509)	(797,356,314)	962,835,823	—	—	—
Other	1,087,073	(961,438,114)	960,351,041	—	—	—
Net increase (decrease)	155,925,819	(4,954,584,269)	1,815,278,188	—	11,092,022	(2,972,288,240)
Net assets held in trust for pension benefits:						
Beginning of year	2,819,646,914	3,146,137,229	15,081,732,218	—	13,701,494	21,061,217,855
End of year	\$ 2,975,572,733	(1,808,447,040)	16,897,010,406	—	24,793,516	18,088,929,615