

POLICE AND FIREMEN'S  
RETIREMENT SYSTEM  
OF NEW JERSEY



1989  
*Annual Report*

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**DEPARTMENT OF  
THE TREASURY**

**DIVISION OF  
PENSIONS**

FEATHER O'CONNOR  
Treasurer

DOUGLAS R. FORRESTER  
Director

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

50 West State Street  
Trenton, New Jersey 08625

**BOARD**

FRANK J. CASEY, Chairman

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GEORGE DILTS  
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CONSULTING ACTUARIES, INC.

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RALPH CAGAN, M.D.

MURRAY SHEPP, M.D.

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

Dear Sir:

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

Respectfully submitted,

FRANK J. CASEY,  
Chairman

# Annual Report

Chapter 134, Laws of 1988 permits certain members of the Police and Firemen's Retirement System who retire with an outstanding loan balance to have that balance paid by withholdings from their monthly retirement allowance in amounts equivalent of the monthly payroll loan deductions in effect at the time of retirement provided that the member:

- (1) receives a disability retirement allowance; or
- (2) receives a non-disability retirement allowance but in reality retired due to a medical illness or disability.

Previous to the enactment of this law, the entire monthly retirement allowance (after authorized deductions) would be withheld until the full amount plus interest was satisfied. The Board of Trustees is responsible for developing criteria for the determination of the alleged medical illness or disability regarding non-disability retirees.

This law was approved on October 5, 1988 to become effective for those retirees whose benefits were due and payable on February 1, 1989 and thereafter.

Chapter 103, Laws of 1989 provides special disability retirement allowance under the Police and Firemen's Retirement System for members receiving a heart transplant. The member must be under 55 years of age and have five or more years of creditable service. There is no requirement for a medical examination or that the member be totally and permanently disabled.

The fact of the heart transplant is sufficient evidence of disability under this law. The amount of the retirement allowance for special disability retirement is 50 percent of final compensation. The life insurance benefit is the same as for Ordinary Disability.

This law also provides that the employer of any member retiring on special disability retirement shall pay the premium or periodic charges for continuation of all coverages provided to the member and the member's dependents under the State Health Benefits Program which are in effect at the time of retirement in conjunction with all the laws governing the Program and with the regulations and practices of the State Health Benefits Commission in administering the Program. This provision is applicable to an employer even if the employer has not agreed to pay for health care benefits for retirees under the Program.

**TREASURER'S RECOMMENDATIONS  
REGARDING CHAPTER 109, P.L. 1979**

In accordance with Section 3 of Chapter 109 of the Laws of 1979, the State Treasurer is required to report to the Legislature on the cost of funding the benefits provided by Chapter 109 in the Annual Report required by the statute. If in any year the state's liability to fund the benefits exceeds the value of the employee contribution increase and the application of interest earnings, the State Treasurer is to recommend further increase in employee contributions or such other action as he considers appropriate to offset any state liability.

The State Treasurer recommends that there be no further increase in employee contributions for several reasons: (1) the cost of this program is escalating rapidly because almost all members are electing the special retirement benefits provided by Chapter 109; (2) it is unfair to the majority of the members of the system who are younger and who will be paying the overwhelming portion of the cost during their active careers; and (3) an increase in employee contributions almost always results in a demand for increased salaries and consequently leads directly to increased pension costs as benefits are based on final salaries.

The State Treasurer therefore recommends that the provision of Chapter 109 be altered so that the contributions required in excess of the 1 percent paid by employees be met by local governments. The treasurer believes that it is inappropriate for the state to pay a portion of the cost of this pension plan which is principally composed of municipal employees. (The state is prepared to pay its share of the cost for state employees.)

Secondly, the municipal obligations under the Consolidated Police and Firemen's Pension Fund, the predecessor fund to the Police and Firemen's Retirement System, has come to an end with the final payment in January 1983, and thus the municipalities have the revenue sources with which to make such additional payments on behalf of their policemen and firemen.

**PARTICIPATING COUNTIES, MUNICIPALITIES,  
FIRE DISTRICTS, AND COMMISSIONS**

Municipalities listed by Counties:

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

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

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

**CAMDEN COUNTY**—Audubon, Audubon Park, Barrington, Bellmawr, Berlin, Berlin Township, Camden, Chesilhurst Borough, Collingswood, Delaware Township, Gloucester City, Gloucester Township, Haddon Township, Haddonfield, Haddon Heights, Merchantville, Mount Ephraim, Oaklyn, Pennsauken Township, Runnemede, Voorhees Township, Waterford Township, Winslow Township, Woodlynne, Cherry Hill Township Fire Districts No. 2, 4, 5, 6.

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

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

**ESSEX COUNTY**—Belleville, Bloomfield, Caldwell Township, Cedar Grove, East Orange, Essex Fells, Glen Ridge, Irvington, Livingston, Maplewood

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Township, Millburn Township, Montclair, Newark, North Caldwell, Nutley,  
Orange, Roseland, South Orange, Verona, West Caldwell, West Orange.

**GLOUCESTER COUNTY**—East Greenwich Township, Franklin Township,  
Glassboro, Logan Township, Monroe Township, Paulsboro, Pitman, Town-  
ship of Harrison, Washington Township, West Deptford, Westville, Wood-  
bury, Woodbury Heights.

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

**HUNTERDON COUNTY**—Lebanon Township.

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

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

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

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

**OCEAN COUNTY**—Bayhead Borough, Berkeley Township, Brick Township,  
Dover Township, Jackson Township, Lacey Township, Lakehurst, Lakewood

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Township, Mantoloking, Point Pleasant, Point Pleasant Beach, Seaside Park Borough.

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

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

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

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

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

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

## **WATERFRONT COMMISSION OF NEW YORK HARBOR**

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

### **MEMBERSHIP**

A normal rate of increase was experienced in enrollments, withdrawals, deaths and retirements for the year ended June 30, 1989. The net active membership increased by 155.

	<b>June 30</b> <b>1989</b>	<b>June 30</b> <b>1988</b>
<b>TOTAL ENROLLMENT</b>	2,216	2,073
<b>SEPARATIONS</b>		
<b>(Withdrawals and Deaths)</b>	689	626
<b>RETIREMENTS</b>	722	919

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# Ernst & Young

Suite 200  
202 Carnegie Center  
Princeton, New Jersey 08540

609/243-0303

Board of Trustees

Police and Firemen's Retirement System of New Jersey

We have audited the accompanying component unit financial statements of the Police and Firemen's Retirement System of New Jersey as of June 30, 1989 and 1988, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Police and Firemen's Retirement System of New Jersey at June 30, 1989 and 1988, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

Princeton, New Jersey  
October 20, 1989

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

	June 30	
	1989	1988
<b>ASSETS</b>		
Investments, at cost:		
Bonds (market value of \$45,780,113 in 1989 and \$52,636,437 in 1988)	\$ 48,677,138	\$ 57,411,568
Common Pension Fund A (market value of \$2,051,092,056 in 1989 and \$1,808,068,405 in 1988)	1,490,417,870	1,422,194,290
Common Pension Fund B (market value of \$1,528,622,698 in 1989 and \$1,383,816,998 in 1988)	1,481,696,971	1,377,783,965
Cash Management Fund (market value of \$323,219,418 in 1989 and \$108,186,305 in 1988)	323,291,418	108,186,305
Mortgages (market value of \$633,950,742 in 1989 and \$565,150,129 in 1988)	628,400,438	572,615,198
<b>TOTAL INVESTMENTS</b>	<u>3,972,483,835</u>	<u>3,538,191,326</u>
Receivables:		
Contributions:		
Members	17,440,224	15,702,838
Employers	172,734,509	163,729,664
Investments:		
Accrued interest	41,894,148	39,362,015
Dividends	14,981,449	12,883,915
Members' loans	124,099,458	108,632,262
Due from Pension Adjustment Fund	2,118,523	1,816,096
Receivable for investment sales	25,466,084	54,014,935
Other	111,330	5,977,324
<b>TOTAL RECEIVABLES</b>	<u>398,845,725</u>	<u>402,119,094</u>
<b>TOTAL ASSETS</b>	<u><u>\$4,371,329,560</u></u>	<u><u>\$3,940,310,375</u></u>

	June 30	
	1989	1988
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Retirement benefits payable	\$ 15,473,126	\$ 13,861,401
Death benefits payable	836,342	986,092
Cash overdraft	1,408,814	2,945,667
Payable for investments purchased	35,042,109	74,342,384
Accounts payable and accrued expenses	2,193,413	2,329,435
<b>TOTAL LIABILITIES</b>	<u>54,953,804</u>	<u>94,464,979</u>
Fund Balances:		
Members' annuity savings fund	680,515,709	612,591,697
Pension accumulation fund	1,920,980,785	1,665,948,010
Retirement reserve fund	1,675,154,424	1,531,923,776
Special reserve fund	39,724,838	35,381,913
Other fund	0	0
<b>TOTAL FUND BALANCES</b>	<u>4,316,375,756</u>	<u>3,845,845,396</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$4,371,329,560</u></u>	<u><u>\$3,940,310,375</u></u>

See notes to financial statements.

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY**

	Members' Annuity Savings Fund	Pension Accumulation Fund	Retirement Reserve Fund	Special Reserve Fund	Other Fund	Totals	
						Year Ended June 30 1989	1988
<b>REVENUES</b>							
Contributions:							
Members	\$ 98,622,943					\$ 98,622,943	\$ 90,936,178
Employers		\$ 203,539,150				203,539,150	190,286,946
Investment revenue		231,995,132	\$ 103,404,855	\$ 4,342,925		339,742,912	328,047,351
Pension Adjustment Fund					\$23,584,182	23,584,182	20,862,270
Transfers from other system	954,392	2,362,132				3,316,524	12,922,132
Other							0
<b>TOTAL REVENUES</b>	<b>99,577,335</b>	<b>437,896,414</b>	<b>103,404,855</b>	<b>4,342,925</b>	<b>23,584,182</b>	<b>668,805,711</b>	<b>643,054,877</b>
<b>EXPENSES</b>							
Benefit payments			155,192,327			155,192,327	137,856,735
Withdrawals	6,260,776					6,260,776	5,485,798
Noncontributory group insurance death benefits		12,751,961				12,751,961	12,717,962
Pension Adjustment Fund					23,584,182	23,584,182	20,862,270
Other		486,105				486,105	502,855
<b>TOTAL EXPENSES</b>	<b>6,260,776</b>	<b>13,238,066</b>	<b>155,192,327</b>		<b>23,584,182</b>	<b>198,275,351</b>	<b>177,425,620</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>93,316,559</b>	<b>424,658,348</b>	<b>( 51,787,472)</b>	<b>4,342,925</b>	<b>0</b>	<b>470,530,360</b>	<b>465,629,257</b>
Transfers between funds for:							
Retirements	( 25,406,122)	( 170,266,913)	195,673,035			0	0
Other	13,575	641,340	( 654,915)			0	0
Fund balances at beginning of year	612,591,697	1,665,948,010	1,531,923,776	35,381,913	0	3,845,845,396	3,380,216,139
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$680,515,709</b>	<b>\$1,920,980,785</b>	<b>\$1,675,154,424</b>	<b>\$39,724,838</b>	<b>\$ 0</b>	<b>\$4,316,375,756</b>	<b>\$3,845,845,396</b>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

	Year Ended June 30	
	1989	1988
<b>SOURCES OF FINANCIAL RESOURCES</b>		
Excess of revenues over expenses	\$470,530,360	\$465,629,257
Items not requiring (providing) financial resources:		
Accretion and amortization—net	( 2,423,913)	( 1,401,361)
Loss (gain) on sales and maturities of long-term investments	( 1,008,526)	6,863,160
Net realized gain on Common Pension Funds A and B	( 70,551,933)	( 102,872,321)
	<u>396,545,988</u>	<u>368,218,735</u>
Proceeds from sales and maturities of long-term investments	112,133,702	260,951,457
Increase in retirement benefits payable	1,611,725	1,808,783
Increase (decrease) in payable for investments purchased	( 39,300,275)	74,342,384
Increase (decrease) in accounts payable and accrued expenses	( 136,022)	124,768
Decrease in other receivables	5,563,567	2,244,695
	<u>476,418,685</u>	<u>707,690,822</u>
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b>		
<b>USES OF FINANCIAL RESOURCES</b>		
Purchases of long-term investments	257,336,726	590,073,415
Increase in Cash Management Fund	215,105,113	21,042,671
Increase in contribution receivables	10,742,231	29,479,797
Increase in accrued investment income	4,629,667	4,671,497
Increase in members' loans	15,467,196	10,354,322
Increase (decrease) in receivable for investment sales	( 28,548,851)	54,014,935
Decrease in death benefits payable	149,750	195,421
	<u>474,881,832</u>	<u>709,832,058</u>
<b>TOTAL USES OF FINANCIAL RESOURCES</b>		

<b>INCREASE (DECREASE)</b>		
<b>IN CASH</b>	1,536,853	( 2,141,236)
<b>CASH OVERDRAFT, beginning of year</b>	( 2,945,667)	( 804,431)
	<u>                    </u>	<u>                    </u>
<b>CASH OVERDRAFT, end of year</b>	<u>(\$ 1,408,814)</u>	<u>(\$ 2,945,667)</u>

See notes to financial statements.

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

June 30, 1989

### NOTE A—SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Police and Firemen's Retirement System of New Jersey (System) are prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

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

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

Investments in the Common Pension Funds, commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants, are valued at cost plus undistributed net realized gains. At June 30, 1989, undistributed net realized gains amounted to \$72,361,829 consisting of \$67,316,735 in Common Pension Fund A and \$5,045,094 in Common Pension Fund B.

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

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

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

**Administrative Expenses:** The System is administered by the State of New Jersey Division of Pensions. All administrative expenses for the years ended June 30, 1989 and 1988 were allocated to the State and State-related (local governmental agencies) employers and they were responsible for such cost. The System's assets available for paying benefits were not

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE A—SIGNIFICANT ACCOUNTING POLICIES—Continued

reduced for administrative expenses. Legislation passed subsequent to June 30, 1989 will require administrative expenses to be paid by the System. The expenses will be included in the normal cost of employer contributions in the following year.

NOTE B—DESCRIPTION OF THE SYSTEM

**Organization:** The System 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 considered a component unit of the State of New Jersey and is included along with other State-administered pension trust funds in the general purpose financial statements of the State.

The System's designated purpose is to provide retirement allowances and other benefits to 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 responsible for its organization and administration.

Membership in the System as of June 30, 1988, the date of the most recent actuarial valuation, was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>10,889</u>
Active members:	
Vested	17,024
Nonvested	<u>15,447</u>
TOTAL	<u>32,471</u>

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

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

### **NOTE B—DESCRIPTION OF THE SYSTEM—Continued**

**Pension Adjustment Program:** Pursuant to N.J.S.A. 43:3B in 1958, 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. These cost-of-living increases are not payable by the System. The cost-of-living increases are made from the State of New Jersey Pension Adjustment Fund which is funded on a "pay as you go" basis by the State and State-related employers.

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

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

**Other:** According to the retirement code, all obligations of the System will be assumed by the State should the System terminate.

Information about the System agreement, including vesting and benefit provisions, is contained in the pamphlet "Police and Firemen's Retirement in New Jersey." Copies of this pamphlet are available from the State of New Jersey Division of Pensions.

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

**NOTE C—PENSION BENEFIT OBLIGATION**

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

The unfunded pension benefit obligation was determined as part of the annual actuarial valuation dated June 30, 1988.

The pension benefit obligation as of June 30, 1988 was:

Pension benefit obligations:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$1,403,771,000
Current employees:	
Accumulated employees contributions with interest	612,592,000
Employer-financed vested	1,791,235,000
Employer-financed nonvested	322,093,000
	<hr/>
Total pension benefit obligation	4,129,691,000
Net assets (fund balance) available for benefits at book value (market value of \$4,328,853,532)	<hr/>
	3,845,845,396
	<hr/>
Unfunded pension benefit obligation	<u>\$ 283,845,604</u>

The above liability was calculated based on the actuarial assumptions of a) rate of return on investments of 8.0% compounded annually as compared to 7½% used in the prior year valuation; b) salary increases ranging from 8.89% at age 25 to 5.07% at age 64 which includes inflation, merit and productivity; c) assets valued at cost or amortized cost; and d) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary.

The pension benefit obligation decreased \$286,536,147 due to the change in the assumed rate of return on investments.

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

### NOTE D—CONTRIBUTION POLICY

**Contributions:** The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members, State-related employers and the State. Member contribution rates range from 7.73% to 10.62% of salary based on the member's age at date of enrollment. Once members are assigned a rate, it is not normally adjusted.

The State appropriation for the year ended June 30, 1989, paid July 1, 1988, is based on the 1987 actuarial valuation and the State-related employer contributions are accrued at June 30, 1989, based on the most recent 1988 actuarial valuation. The normal contribution includes an amount that is required to fund noncontributory death benefits.

In accordance with the provisions of the above-named statute, the contribution policy requires employers and the State to make a normal contribution and a past service contribution as determined by a qualified actuary. The System's actuary uses the "projected benefit method" to determine normal costs which were determined to be \$197,093,401 as of June 30, 1988, the date of the most recent actuarial report. As of the same date, the actuary computed that, utilizing the present method of funding, the unfunded actuarial liability of the State and State-related employers for prior service was \$132,097,687. This amount is to be funded over approximately 23 years.

Total contributions for the year ended June 30, 1989 were \$302,162,093 (\$203,539,150 from employers and \$98,622,943 from employees or 18.81% and 9.11%, respectively, of annual covered compensation based on the most recent actuarial valuation) including \$192,617,180 representing the normal contribution amount and \$10,542,553 relating to the accrued liability funding.

The contributing employers as of June 30, 1989 were:

State	1
Municipalities	<u>439</u>
TOTAL	<u><u>440</u></u>

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized increase of the pension obligation discussed in Note C with the exception of the assumed rate of return on investments, which is 6.75% for contribution requirements.

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

### NOTE D—CONTRIBUTION POLICY—Continued

No actuarial assumptions were changed during the year and no material plan amendments were made during the Plan year.

### NOTE E—DESCRIPTION OF FUND BALANCES

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

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

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

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

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

**Retirement Reserve Fund:** The Retirement Reserve Fund is the account from which all retirement allowances are paid. Upon retirement of a member, accumulated contributions are transferred to the Retirement Reserve Fund from the ASF. Any reserves needed to fund the balance of the retirement benefits are transferred from the Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (6.75% for 1989 and 1988) is credited to the Retirement Reserve Fund. Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Pension Accumulation Fund upon advice of the actuary.

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NOTES TO FINANCIAL STATEMENTS—Continued

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE F—INVESTMENTS—Continued

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

A summary of investment securities as of June 30, 1989 and the approximate market values follows:

	<u>Book Value</u>	<u>Market Value</u>
	(In 000's)	
Bonds:		
U.S. and Municipal government bonds	\$ 3,359	\$ 3,494
Industrial bonds	5,825	5,873
Telephone bonds	5,587	5,000
Gas, electric and water bonds	26,559	24,346
Finance companies—senior debt	499	457
Railroad equipment obligations	245	235
Other	6,603	6,375
	<u>48,677</u>	<u>45,780</u>
Mortgages	628,401	633,951
Common Pension Fund A	1,490,418	2,051,092
Common Pension Fund B	1,481,697	1,528,663
State of New Jersey Cash Management Fund	323,291	323,291
<b>TOTAL</b>	<u><u>\$3,972,484</u></u>	<u><u>\$4,582,777</u></u>

Investments in excess of 5% of net assets are:

	June 30	
	<u>1989</u>	<u>1988</u>
	(In 000's)	
Common Pension Fund A	\$1,490,418	\$1,422,194
Common Pension Fund B	1,481,697	1,377,784
State of New Jersey Cash Management Fund	323,291	

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

### **NOTE G—INCOME TAX STATUS**

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

### **NOTE H—HISTORICAL TREND INFORMATION**

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

**REPORT OF INDEPENDENT AUDITORS ON  
REQUIRED SUPPLEMENTARY INFORMATION**

Board of Trustees

Police and Firemen's Retirement System of New Jersey

The analysis of funding progress and revenues by source and expenses by type of the Police and Firemen's Retirement System of New Jersey are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Ernst + Young*

Princeton, New Jersey

October 20, 1989

**REQUIRED SUPPLEMENTARY INFORMATION  
ANALYSIS OF FUNDING PROGRESS**

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

(In millions)

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

Plan Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
	Net Assets Available For Benefits	Pension Benefit Obligation	Percentage Funded (1) ÷ (2)	Unfunded Pension Benefit Obligation (2) - (1)	Annual Covered Payroll	Unfunded Pension Obligation As A Percentage Of Covered Payroll (4) ÷ (5)
1986	\$2,522.1	\$2,527.9	99.8%	\$ 5.8	\$ 793.0	.7%
1987	2,917.0	3,410.5	85.5	493.5	878.7	56.2
1988	3,380.3	3,969.3	85.2	589.1	992.6	59.3
1989	3,845.8	4,129.7	93.1	283.8	1,082.2	26.2

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

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

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

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

Plan Fiscal Year	REVENUES BY SOURCE						
	Members Contributions	Employer Contributions			Investment Income	Total	
		State	Percentage Of Annual Covered Compensation	Local			Percentage Of Annual Covered Compensation
1980	\$41,125,191	\$ 3,862,109	.82%	\$ 60,780,796	12.90%	\$ 89,272,775	\$195,040,871
1981	45,743,544	4,255,519	.84	70,645,253	14.00	106,437,598	227,081,914
1982	47,315,384	5,171,000	.93	75,927,698	13.61	130,119,619	258,533,701
1983	54,407,642	5,825,120	.97	105,251,969	17.55	142,693,728	308,178,459
1984	57,323,201	17,377,955	2.62	106,676,591	16.05	165,204,918	346,582,665
1985	61,485,398	15,416,056	2.14	111,708,250	15.48	187,361,940	375,971,644
1986	82,850,214	22,019,632	2.78	116,445,451	14.68	231,905,058	453,220,355
1987	88,606,176	22,269,550	2.53	158,194,932	18.01	331,440,601	600,511,259
1988	93,565,698	30,375,778	3.06	170,203,780	17.15	328,047,351	622,192,607
1989	99,577,335	38,104,826	3.52	167,796,456	15.50	339,742,912	645,221,529

Plan Fiscal Year	EXPENSES BY TYPE				
	Benefits		Withdrawals	Transfers To Other Retirement Systems	Total
	Retirement	Other			
1980	\$ 30,602,553		\$3,342,459	\$ 164,378	\$ 34,109,390
1981	41,113,552		3,145,450	476,565	44,735,567
1982	53,050,010		3,598,807	159,244	56,808,061
1983	64,024,547		3,090,823	268,167	67,383,537
1984	75,829,121	\$ 9,058,649	3,221,097	1,838,858	89,947,725
1985	89,511,080	7,894,013	3,695,546	188,230	101,288,869
1986	103,566,676	11,735,688	3,950,178	275,178	119,527,720
1987	119,136,734	12,835,426	4,330,250	774,983	137,077,393
1988	137,856,735	12,717,962	5,091,920	896,733	156,563,350
1989	155,192,327	12,751,961	5,829,504	884,591	174,658,383

Contributions were made in accordance with actuarially determined contribution requirements.

**ASSETS**

Present Assets to Systems Creditable to:		
Retirement Reserve Fund:		
Credited to fund	\$1,531,923,776	
Add reserve transferable from Pension		
Accumulation Fund	<u>15,731,896</u>	\$1,547,655,672
Annuity Savings Fund		612,591,697
Pension Accumulation Fund excluding contribution		
accruals and including interest accruals:		
Credited to fund	\$1,510,727,240	
Deduct reserve transferable		
to Retirement Reserve Fund	<u>15,731,896</u>	1,494,995,344
Special Reserve Fund		<u>35,381,913</u>
Total		\$3,690,624,626
Prospective contributions of members	\$1,101,708,126	
Prospective contributions of employers including		
contribution accruals:		
Normal contributions	2,400,541,693	
Accrued liability contributions	<u>132,097,687</u>	3,634,347,506
<b>Total Assets</b>		<u><u>\$7,324,972,132</u></u>

**LIABILITIES**

Present value of benefits payable on account		
of beneficiaries now drawing allowances from		
Retirement Reserve Fund		\$1,547,655,672
Present value of prospective benefits for		
which reserves are being accumulated in the		
Annuity Savings Fund and the Pension		
Accumulation Fund:		
Service retirement allowances including		
special retirement and vesting benefits		
and Unclaimed Accounts	\$4,090,704,483	
Vested terminated benefits	3,750,882	
Ordinary disability retirement allowances	167,405,237	
Accidental disability retirement allowances	171,123,766	
Ordinary death benefits on account of		
members dying prior to retirement	277,521,518	
Lump sum death benefits payable upon		
death after retirement	188,256,533	
Accidental death benefits	32,966,127	
Return of members' contributions upon		
withdrawal before retirement	117,721,834	
Pensions to beneficiaries of employees		
payable upon death after retirement	<u>727,866,080</u>	5,777,316,460
<b>Total Liabilities</b>		<u><u>\$7,324,972,132</u></u>



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Police and Firemen's Retirement System

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