

**DEPARTMENT OF
THE TREASURY**
John E. McCormac, CPA
State Treasurer

**DIVISION OF PENSIONS
AND BENEFITS**
Frederick J. Beaver
Director



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

**JUDICIAL RETIREMENT
SYSTEM OF NEW JERSEY**

STATE HOUSE COMMISSION
as of June 30, 2003

JAMES E. McGREEVEY
Governor

JOHN E. McCORMAC
State Treasurer

SENATOR
WALTER J. KAVANAUGH

SENATOR
BERNARD F. KENNY, JR.

ASSEMBLYMAN
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Director and State Comptroller
Office of Management and Budget
Department of the Treasury

FREDERICK J. BEAVER
Secretary

BUCK CONSULTANTS, INC.
Actuaries and Consultants

TO THE HONORABLE
JAMES E. McGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

The Commission for the

JUDICIAL RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2003 Annual Report
in accordance with the provisions of N.J.S.A. 43:6A-29.

Respectfully submitted,

A handwritten signature in cursive script that reads "Frederick J. Beaver".

FREDERICK J. BEAVER
Secretary

SIGNIFICANT LEGISLATION

Chapter 54, P.L. 2002

This law allows members of the Judicial Retirement System (JRS) to elect to receive a reduced retirement allowance in order to provide a benefit to a named beneficiary. The five optional settlements in this law are the same as those available to members of the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund.

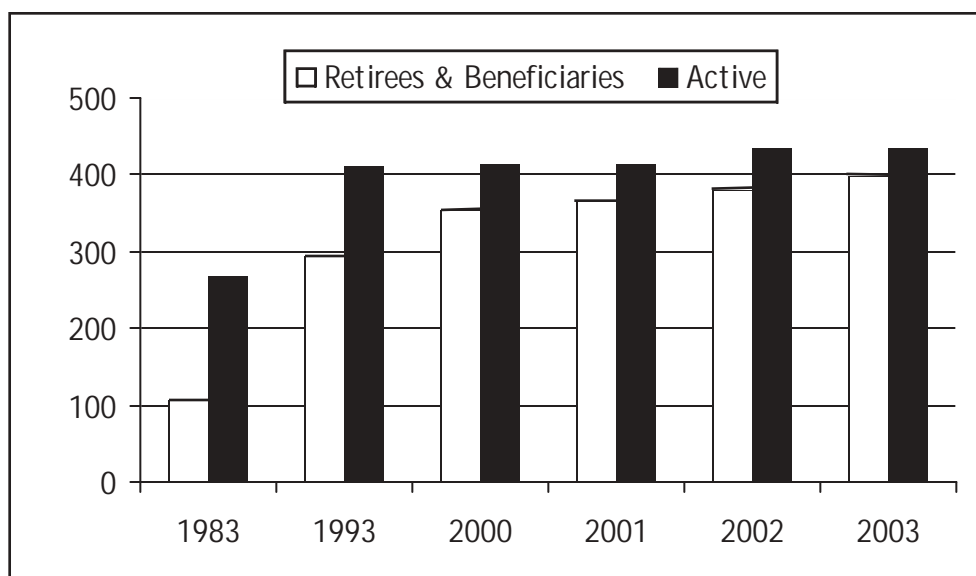
The law also provides that within six months of its effective date, a retired JRS member may elect an optional settlement which will be applicable to the member's retirement allowance payable after the election is made.

These options, which allow JRS members to reduce their retirement allowance to provide benefits to a named beneficiary, are in addition to the JRS survivor benefits currently provided by law.

This law was effective September 2, 2002.

MEMBERSHIP

- As of June 30, 2003, the active membership of the System totaled 436.
- There were 399 retirees and beneficiaries receiving annual pensions totaling \$25,310,117. (This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act).
- There were no death benefits paid during fiscal year 2003.
- The System's assets totaled \$301,503,713 at the close of the fiscal year 2003.



KPMG LLP
New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

Independent Auditors' Report

State House Commission
State of New Jersey
Judicial Retirement System:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Judicial Retirement System (the System) as of June 30, 2003 and 2002, 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 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 Judicial Retirement System as of June 30, 2003 and 2002, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in fiduciary net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

September 19, 2003

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2003 and 2002

Our discussion and analysis of the Judicial Retirement System (the System)'s financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2003 and 2002. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

2003 - 2002

- Net assets held in trust for pension benefits decreased by \$6,377,982 as a result of this year's operations from \$305,776,040 to \$299,398,058.
- Additions for the year were \$19,344,503, which are comprised of member and employer pension contributions of \$11,644,055 and investment income of \$7,700,448.
- Deductions for the year were \$25,722,486, which are comprised of benefit and refund payments of \$25,679,279 and administrative expenses of \$43,207.

2002 - 2001

- Net assets held in trust for pension benefits decreased by \$50,514,314 as a result of the year's operations from \$356,290,354 to \$305,776,040.
- Additions for the year were (\$25,851,148), which are comprised of member and employer pension contributions of \$2,903,465 and investment losses of (\$28,754,613).
- Deductions for the year were \$24,663,166, which are comprised of benefit and refund payments of \$24,622,202 and administrative expenses of \$40,964.
- The System utilized net assets (excess assets above the required funding level) to meet the year's normal pension contribution requirements.

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.

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

2003 - 2002

The System's assets mainly consist of cash, investments and contributions due from members and the participating employer. Between fiscal years 2002 and 2003, total assets decreased by \$6,650,817 or 2.2% from \$308,154,530 to \$301,503,713.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management Discussion and Analysis, Continued

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, noncontributory group insurance premiums owed to the System's insurance provider, and other payables. Total liabilities decreased by \$272,835 or 11.47% over last year from \$2,378,490 to \$2,105,655 due to decrease in death benefit payable.

Net assets held in trust for pension benefits decreased by \$6,377,982 or 2.1%.

2002 - 2001

Between fiscal years 2001 and 2002, total assets decreased by \$50,318,108 from \$358,472,638 to \$308,154,530. The decrease in total assets is mainly due to a loss in the fair value of the System's investments and an increase in benefit payments. During the year, the System had an estimated investment loss of 9.0%.

Total liabilities increased by \$196,206 or 9.0% over last year from \$2,182,284 to \$2,378,490. This is mainly due to an increase in retirement and insurance benefit payments. In addition, accruals for insurance benefit payments include three months of premium charges and increased by \$314,831.

Net assets held in trust for pension benefits decreased by \$50,514,314 or 14.2% primarily due to the investment loss realized by the System.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2003 - 2002

	2003	2002	Increase (Decrease)
Member Contributions	\$2,578,620	\$2,323,835	\$254,785
Employer Contributions	9,065,435	579,630	8,485,805
Investment & Other	7,700,448	(28,754,613)	36,455,061
Totals	\$19,344,503	\$(25,851,148)	\$45,195,651

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions rose 11.0% due to normal salary increases. There was an increase in the number of transfers from other retirement systems which accounts for the increase in member and employer contributions.

The State made a required contribution of \$8,467,287 to satisfy the actuarially accrued liability in fiscal year 2003. Contributions were not required between 1997 and 2002 due to Pension Security legislation passed in 1997.

After the prior two consecutive years of investment losses, the System had investment gains in fiscal year 2003. The total investment gain for all pension funds was estimated to be 3.3% compared to 9.0% loss in the prior year.

2002 - 2001

	2002	2001	Increase (Decrease)
Member Contributions	\$2,323,835	\$1,818,915	\$504,920
Employer Contributions	579,630	173,556	406,074
Investment & Other	(28,754,613)	(40,392,369)	11,637,756
Totals	\$(25,851,148)	\$(38,399,898)	\$12,548,750

Member contributions rose 27.8% due to normal salary increases and increased membership. There was an increase in the number of transfers from other retirement systems which accounts for the increase in employer contributions.

Fiscal year 2002 was the fourth consecutive year that the State has not been required to make pension contributions to the System. The normal contributions have been funded using net assets (excess assets above the required funding level). Net assets have been available mainly due to Pension Security legislation passed in 1997. This legislation authorized the New Jersey Economic Development Authority to issue bonds and to use the proceeds from

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management Discussion and Analysis, Continued

the bond sale to eliminate the State's portion of the unfunded accrued liabilities of the retirement systems. The System received bond proceeds of \$100,903,385 in 1997. This influx of funds, coupled with investment returns in the late 1990s, has produced excess net assets which have been utilized to cover the normal contributions from 1999 through 2002.

In fiscal year 2002, the total investment loss for all pension funds was estimated to be 9.0% compared to 10.4% in the prior year.

**DEDUCTIONS FROM FIDUCIARY NET ASSETS
2003 - 2002**

	2003	2002	Increase (Decrease)
Benefits	\$25,551,000	\$24,586,223	\$964,777
Refunds & Adjustments	128,278	35,979	92,299
Administrative Expenses	43,207	40,964	2,243
Totals	\$25,722,485	\$24,663,166	\$1,059,319

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 3.9% primarily because the increased number of retired members are receiving benefits. Refunds increased due to the increase in the number of withdrawals and transfers to other retirement systems. Administrative expenses have increased mainly due to contractual increases in salaries.

2002 - 2001

	2002	2001	Increase (Decrease)
Benefits	\$24,586,223	\$22,869,542	\$1,716,681
Refunds & Adjustments	35,979	10,715	25,264
Administrative Expenses	40,964	33,078	7,886
Totals	\$24,663,166	\$22,913,335	\$1,749,831

Benefit payments increased by 7.5% primarily because more members are receiving benefits. Refunds increased due to the payment of an active death benefit in the current year. Administrative expenses have increased mainly due to contractual increases in salaries and higher fringe benefit costs.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 96.0% for fiscal year 2003 and 101.8% for 2002 indicate that the System has assets sufficient to meet its benefit obligations.

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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Assets:		
Investments, at fair value:		
Cash Management Fund	678,099,545	318,445,673
Bonds	12,669,144	18,198,484
Common Pension Fund A	6,650,424,087	6,459,001,400
Common Pension Fund B	3,118,811,410	3,554,435,308
Common Pension Fund D	2,358,943,811	2,376,552,698
Mortgage Backed Securities	1,260,874,507	1,410,456,805
Total investments	<u>14,079,822,504</u>	<u>14,137,090,368</u>
Receivables:		
Contributions:		
Members	47,455,802	44,799,031
Employers	256,931,014	532,733,506
Accrued interest and dividends	76,884,636	86,991,470
Members' loans	468,255,038	468,079,428
Other	30,771,611	14,274,587
Total receivables	<u>880,298,101</u>	<u>1,146,878,022</u>
Total assets	<u>14,960,120,605</u>	<u>15,283,968,390</u>
Liabilities:		
Accounts payable and accrued expenses	2,142,026	1,764,845
Retirement benefits payable	74,250,504	70,611,067
NCGI premiums payable	3,044,899	4,958,494
Cash Overdraft	727,585	1,589,624
Total liabilities	<u>80,165,014</u>	<u>78,924,030</u>
Net Assets:		
Held in trust for pension benefits	<u>\$ 14,879,955,591</u>	<u>15,205,044,360</u>

See schedule of funding progress on page 18.
See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Additions:		
Contributions:		
Members	\$ 2,578,620	2,323,835
Employers	<u>9,065,435</u>	<u>579,630</u>
Total contributions	<u>11,644,055</u>	<u>2,903,465</u>
Investment income:		
Net (depreciation) in fair value of investments	(951,113)	(38,868,925)
Interest	6,347,676	8,070,739
Dividends	<u>2,326,256</u>	<u>2,070,705</u>
	7,722,819	(28,727,481)
Less: investment expense	<u>22,371</u>	<u>27,132</u>
Net investment income	<u>7,700,448</u>	<u>(28,754,613)</u>
Total additions	<u>19,344,503</u>	<u>(25,851,148)</u>
Deductions:		
Benefits	25,551,000	24,586,223
Refunds of contributions	128,278	35,979
Administrative expenses	<u>43,207</u>	<u>40,964</u>
Total deductions	<u>25,722,485</u>	<u>24,663,166</u>
Change in net assets	(6,377,982)	(50,514,314)
Net assets - Beginning of year	<u>305,776,040</u>	<u>356,290,354</u>
Net assets - End of year	<u>\$ 299,398,058</u>	<u>305,776,040</u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2003 and 2002

(1) DESCRIPTION OF THE SYSTEM

The State of New Jersey Judicial Retirement System (the System; JRS) is a single-employer contributory defined benefit plan which was established as of June 1, 1973, under the provisions of N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. 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.

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for all members of the state judiciary in the State of New Jersey. The System's State House Commission 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.

Vesting and Benefit Provisions:

The vesting and benefit provisions are set by N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The System provides retirement benefits as well as death and disability benefits. Retirement benefits for age and years of service are as follows:

<u>AGE</u>	<u>YEARS OF JUDICIAL SERVICE</u>	<u>BENEFIT AS A PERCENTAGE OF FINAL SALARY</u>
70	10	75%
65	15	75
60	20	75

<u>AGE</u>	<u>YEARS OF JUDICIAL SERVICE</u>	<u>YEARS OF PUBLIC AND JUDICIAL SERVICE</u>	<u>BENEFIT AS A PERCENTAGE OF FINAL SALARY</u>
65	5	15	50%
60	5	20	50

Retirement benefits are also available at age 60 with five years of judicial service and 15 years in the aggregate of public service, or at age 60 while serving as a judge with the benefit determined to be 2% of final salary, as defined, for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years. Deferred and early retirement benefits are also available.

New Legislation:

Chapter 54, P.L.2002 allows members of the JRS to elect to receive a reduced retirement allowance in order to provide a benefit to a named beneficiary, effective September 2, 2002. The five optional settlements with JRS are option 1, 2, 3, 4, and 5. The new option (option 5) pays benefit equivalent to the full amount, three-quarters, one-half, or one-quarter of the retirement allowance to the beneficiary. If the beneficiary predeceases the

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

member, the retirement allowance increases to the maximum retirement allowance for member's lifetime, provided that the benefit is certified by the actuary to be of equivalent actuarial value.

Membership and Contributing Employers:

Membership in the System consisted of the following at June 30:

	2002	2001
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	386	370
Active members:		
Vested	223	209
Non-vested	215	209
Total active members	438	418
Total	824	788

The State of New Jersey is the only contributing employer of this System.

(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 System that focuses on total economic resources employs the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

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" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Plan assets are recorded at fair value. Employer contributions are recognized when payable to the System. Benefits and refunds are recognized when payable in accordance with the terms of the System.

Financial Reporting Model:

Effective July 1, 2000, the Division adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*

Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*

Statement No. 34 (as amended by Statement No. 37) requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of the System's financial activities.

Investment Valuation:

Investments, including short-term investments (State of New Jersey Cash Management Funds), are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgage backed securities are valued on the basis of future principal and interest

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Notes to Financial Statements, Continued

payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

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

The State of New Jersey Division of Investment administers three common pension funds which are utilized by the System. A brief description of each common pension fund is as follows:

Common Pension Fund A - The operations of Common Pension Fund A are governed by the provisions of Article 62 of the State of New Jersey Investment Council regulations for the purpose of investing in corporate common stocks, securities convertible into corporate common stocks or covered call options.

Common Pension Fund B - The operations of Common Pension Fund B are governed by the provisions of Article 63 of the State of New Jersey Investment Council regulations for the purpose of investing in fixed income and debt securities.

Common Pension Fund D - The operations of Common Pension Fund D are governed by the provisions of Article 67 of the State of New Jersey Investment Council regulations for the purpose of investing in international debt and equity securities, currencies, currency futures, and options.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Funds, Common Pension Fund A, Common Pension Fund B and Common Pension Fund D. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the System, through the State Treasurer, and custodian banks as agents for the System. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of custodial risk assumed by the System. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. As of June 30, 2003 and 2002, all investments held by the System (other than mortgage backed securities and the State of New Jersey Cash Management Funds which are not categorized) are classified as Category 1.

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

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

Members' Loans:

Chapter 25, P.L. of 1997 which was enacted on March 7, 1997, allows active contributing members to borrow against their accumulated deductions in the System. Any member who has 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 an interest rate of 4%. 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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

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 statements of changes in fiduciary net assets.

Cash and Cash Equivalents:

GASB Statement No. 3 also requires that deposits held in financial institutions be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all state bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2003, which include funding for the July 1, 2003 retirement payroll, are designated Category 3.

(3) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members enrolled on January 1, 1996 or after contribute at 3% on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on 3% of the difference between their current salary and the salary of the position on January 18, 1982. The State of New Jersey is required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey. As a result of this legislation, the State of New Jersey was not required to make a contribution to the System for the years between 1997 and 2002.

The State made a contribution of \$8,467,287 to satisfy the actuarially accrued liability in fiscal year 2003 and no contribution in 2002.

(4) FUNDS

The System maintains the following legally required funds:

Members' Annuity Savings Fund (2003 - \$22,943,223; 2002 - \$19,977,330)

The Members' Annuity Savings Fund is credited with all contributions made by active members of the System.

Contingent Reserve Fund (2003 - \$144,763,034; 2002 - \$162,101,405)

The Contingent Reserve Fund is credited with the contributions of the State of New Jersey. Interest earnings, after crediting the Members' Annuity Savings Fund and the Retirement Reserve Fund, as required, are also credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund (2003 - \$131,691,801; 2002 - \$123,697,305)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, including cost-of-living benefits, are paid. Upon retirement of a member, accumulated contributions together with accumulated interest are transferred to the Retirement Reserve Fund from the Members' Annuity Savings Fund. Any reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.75% for 2003 and 2002) is credited to the Retirement Reserve Fund.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

(5) INCOME TAX STATUS

Based on a 1986 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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information

Schedule of Funding Progress

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
June 30, 1997	\$317,289,094	\$295,150,638	\$(22,138,456)	107.5%	\$46,912,950	(47.2%)
June 30, 1998	333,437,794	305,779,217	(27,658,577)	109.0%	48,196,350	(57.4%)
June 30, 1999	352,858,160	313,873,659	(38,984,501)	112.4%	48,886,350	(79.7%)
June 30, 2000	374,486,433	350,920,345	(23,566,088)	106.7%	55,514,214	(42.5%)
June 30, 2001	379,592,346	372,760,069	(6,832,277)	101.8%	57,800,334	(11.8%)
June 30, 2002	373,231,198	388,950,803	15,719,605	96.0%	61,873,500	25.4%

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2002 and 2001 actuarial valuations included the following:

	June 30, 2002	June 30, 2001
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 dollar, closed	Level dollar, closed
Remaining amortization period	30 years	31 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$18,406,865	\$110,483,753 ⁽²⁾	600.2%
1998	14,658,095	13,478,708	92.0%
1999	13,416,851	—	0.0%
2000	13,407,153	—	0.0%
2001	12,816,557	—	0.0%
2002	15,575,602	—	0.0%
2003	16,913,237	8,467,287	50.1%

Notes to Schedule:

- (1) Employer contributions exclude contributions received from other pension funds for certain judges who transferred their eligible prior service credit to the Judicial Retirement System.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund required employer contributions from year 1997 to 2002.

- (2) For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997), authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

Schedule 3

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2003

	MEMBERS' ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	TOTAL
Additions:				
Contributions:				
Members	\$ 2,578,620	—	—	2,578,620
Employers	—	9,065,435	—	9,065,435
Total contributions	2,578,620	9,065,435	—	11,644,055
Distribution of net investment income	1,665,112	(4,788,178)	10,823,514	7,700,448
Total additions	4,243,732	4,277,257	10,823,514	19,344,503
Deductions:				
Benefits	—	240,883	25,310,117	25,551,000
Refunds of contributions	128,278	—	—	128,278
Administrative expenses	—	43,207	—	43,207
Total deductions	128,278	284,090	25,310,117	25,722,485
Net increase (decrease) before transfers among reserves	4,115,454	3,993,167	(14,486,603)	(6,377,982)
Transfers among reserves:				
Retirements	(1,149,562)	(21,331,536)	22,481,098	—
Net increase (decrease)	2,965,892	(17,338,369)	7,994,495	(6,377,982)
Net assets held in trust for pension benefits:				
Beginning of year	19,977,330	162,101,405	123,697,305	305,776,040
End of year	\$ 22,943,222	144,763,036	131,691,800	299,398,058

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