

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, 2004

JAMES E. McGREEVEY

Governor

JOHN E. McCORMAC

State Treasurer

SENATOR

WALTER J. KAVANAUGH

SENATOR

BERNARD F. KENNY, JR.

ASSEMBLYMAN

ANTHONY IMPREVEDUTO

ASSEMBLYMAN

MICHAEL J. DOHERTY

CHARLENE HOLZBAUR

Director and State Comptroller

Office of Management and Budget

Department of the Treasury

FREDERICK J. BEAVER

Secretary

MELLON HUMAN RESOURCES
& INVESTOR SOLUTIONS

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 2004 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 246, P.L. 2003

This new law is designated the "Domestic Partnership Act." It creates a mechanism, through the establishment of domestic partnerships, for New Jersey to recognize and support adult individuals in this State who share an important personal, emotional and committed relationship with another adult.

The law provides that two persons who desire to become domestic partners may execute and file an Affidavit of Domestic Partnership with the local registrar upon payment of a fee, in an amount to be determined by the Commissioner of Health and Senior Services, if they meet all of the following requirements:

- Both persons share a common residence in this State, or share the same place to live in another jurisdiction and at least one of them is a member of a State-administered retirement system;
- Both persons are otherwise jointly responsible for each other's common welfare as evidenced by joint financial arrangements or joint ownership of real or personal property, which are to be demonstrated by at least one of the following: a joint deed, mortgage agreement or lease; a joint bank account; designation of one of the persons as a primary beneficiary in the other person's will; designation of one of the persons as a primary beneficiary in the other person's life insurance policy or retirement plan; or joint ownership of a motor vehicle;
- Both persons agree to be jointly responsible for each other's basic living expenses during the domestic partnership;
- Neither person is in a marriage recognized by New Jersey law or a member of another domestic partnership;
- Neither person is related to the other by blood or affinity up to and including the fourth degree of consanguinity;
- Both persons are of the same sex and therefore unable to enter into a marriage with each other that is recognized by New Jersey law, or are each 62 years of age or older and not of the same sex;
- Both persons have chosen to share each other's lives in a committed relationship of mutual caring;
- Both persons are at least 18 years of age;
- Both persons file jointly an Affidavit of Domestic Partnership; and
- Neither person has been a partner in a domestic partnership that was terminated less than 180 days prior to the filing of the current Affidavit of Domestic Partnership, except that this prohibition does not apply if one of the partners died; and, in all cases in which a person registered a prior domestic partnership, the domestic partnership must have been terminated in accordance with the provisions of the law.

In the case of domestic partners that are not of the same sex, the domestic partnership will terminate automatically upon the partners' entry into a marriage with each other that is recognized by New Jersey law.

This law accords domestic partners rights and responsibilities that reflect the mutually interdependent and supportive nature of domestic partnership relationships. It provides all domestic partners with:

- statutory protection through the "Law Against Discrimination" (N.J.S.A.10:5-1 et seq.) against various forms of discrimination based on domestic partnership status, including employment, housing and credit discrimination;
- visitation rights for a hospitalized domestic partner and the right to make medical or legal decisions for an incapacitated partner; and
- an additional personal exemption under the "New Jersey Gross Income Tax Act" (N.J.S.A.54A:1-1 et seq.) and an exemption from the New Jersey transfer inheritance tax on the same basis as a spouse.

This law also makes certain health and pension benefits available to dependent domestic partners in the case of domestic partnerships in which both persons are of the same sex and therefore unable to enter into a marriage with each other that is recognized by New Jersey law:

- in the case of State employees, eligibility for dependent coverage under the State Health Benefits Program and dependent benefits under State-administered retirement systems (Public Employees' Retirement System, Police and Firemen's Retirement System, Judicial Retirement System, Teachers' Pension and Annuity Fund, and State Police Retirement System);
- in the case of other public employees, including employees of counties, municipalities and boards of education, eligibility for dependent coverage under the State Health Benefits Program and State-administered retirement systems, if the employer adopts a resolution providing for such coverage; and
- eligibility for dependent coverage under health insurance contracts and policies that commercial health and dental insurers are required to offer to covered persons under the law.

It also provides that two adults who have not filed an Affidavit of Domestic Partnership are to be treated as domestic partners in an emergency medical situation for the purposes of allowing one adult to accompany the other adult who is ill or injured while the latter is being transported to a hospital, or to visit the other adult who is a hospital patient, on the same basis as a member of the latter's immediate family, if both persons, or one of the persons in the event that the other person is legally or medically incapacitated, advise the emergency care provider that the two persons have met the other requirements for establishing a domestic partnership; however, this provision is not to be construed to permit the two adults to be treated as domestic partners for any other purpose prior to their having filed an Affidavit of Domestic Partnership.

Additionally, this law stipulates that, notwithstanding any other provisions of law to the contrary, the following provisions in this law shall not be deemed an unlawful discrimination under the "Law Against Discrimination" (N.J.S.A.10:5-1 et seq.):

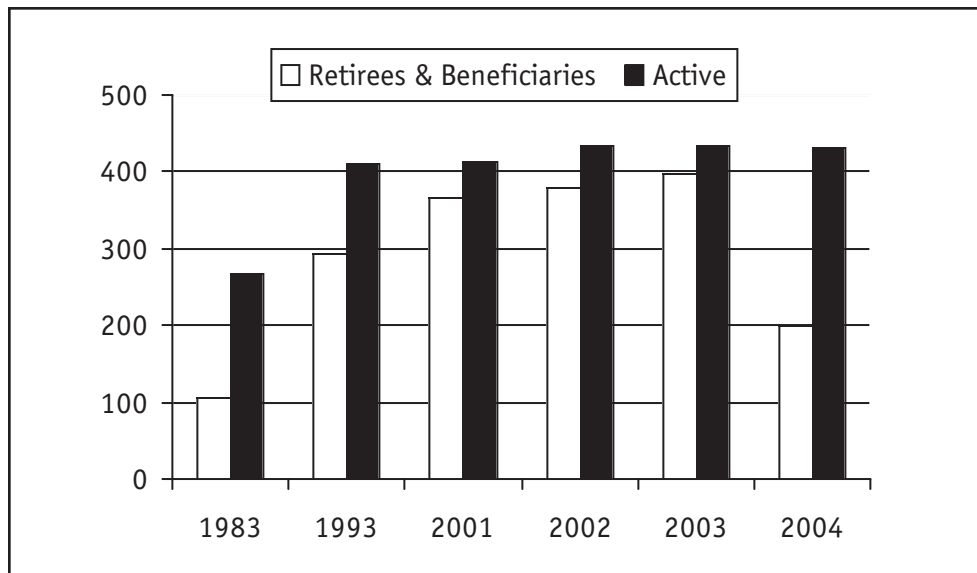
- Section 57, which permits an employer that provides a health benefits plan (as defined in N.J.S.A.26:2S 2) to its employees and their dependents to require that an employee contribute a portion or the full amount of the cost of dependent coverage under the plan for the employee's domestic partner, and
- Section 58, which deals with the distinction between same-sex couples and opposite-sex couples over 62 years of age who establish domestic partnerships with respect to health and pension benefits made available to dependent domestic partners under this law.

The SHBP and State administered pension statutes impacted by this law can be found in Sections 41 through 46 of the law.

This law was effective on July 10, 2004.

MEMBERSHIP

- As of June 30, 2004, the active membership of the System totaled 432.
- There were 419 retirees and beneficiaries receiving annual pensions totaling \$26,576,846. (This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act).
- There were 10 death benefits paid during fiscal year 2004.
- The System's assets totaled \$324,619,731 at the close of the fiscal year 2004.



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, 2004 and 2003, 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, 2004 and 2003, 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 basic 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. 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 basic 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 24, 2004

STATE OF NEW JERSEY JUDICIAL RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2004 and 2003

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, 2004 and 2003. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

2004 - 2003

- Net assets held in trust for pension benefits increased by \$22,982,102 as a result of this year's operations from \$299,398,058 to \$322,380,160.
- Additions for the year were \$50,356,209, which are comprised of member and employer pension contributions of \$6,880,036 and investment income of \$43,476,173.
- Deductions for the year were \$27,374,107, which are comprised of benefit and refund payments of \$27,204,283 and administrative expenses of \$169,824.

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 \$25,722,485, which are comprised of benefit and refund payments of \$25,679,278 and administrative expenses of \$43,207.

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

2004 - 2003

	2004	2003	Increase (Decrease)
Assets	\$324,619,731	\$301,503,713	\$23,116,018
Liabilities	2,239,571	2,105,655	133,916
Net Assets (Deficit)	\$322,380,160	\$299,398,058	\$22,982,102

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management Discussion and Analysis, Continued

The System's assets mainly consist of cash, investments, contributions due from members, and accrued investment income. Between fiscal years 2003 and 2004, total assets increased by \$23.1 million or 7.7% due to increase in fair value of investments.

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 increased by 6.4% over last year due to increase in retirement benefits payable to increased number of retirees.

Net assets held in trust for pension benefits increased by \$23 million or 7.7%.

2003 - 2002

	2003	2002	Increase (Decrease)
Assets	\$301,503,713	\$308,154,530	\$(6,650,817)
Liabilities	2,105,655	2,378,490	(272,835)
Net Assets (Deficit)	\$299,398,058	\$305,776,040	\$(6,377,982)

Between fiscal years 2002 and 2003, total assets decreased by \$6.7 million or 2.2%.

Total liabilities decreased by 11.5% over last year due to decrease in death benefit payable.

Net assets held in trust for pension benefits decreased by \$6.4 million or 2.1%.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Member Contributions	\$1,795,721	\$2,578,620	\$(782,899)
Employer Contributions	5,084,315	9,065,435	(3,981,120)
Investment & Other	43,476,173	7,700,448	35,775,725
Totals	\$50,356,209	\$19,344,503	\$31,011,706

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions decreased by 30.4% due to a decreased number of active members. There was a decrease in the number of transfers from other retirement systems which partly accounts for the decrease in member and employer contributions.

The State made a required contribution of \$3.4 million to satisfy the actuarially accrued liability in fiscal year 2004. Contributions were not required between 1997 and 2002 due to Pension Security legislation passed in 1997.

Investment & other revenues increased by \$35.8 million or 464.6% due to an increase in net appreciation in fair value of investments.

The total investment gain for all pension funds was estimated to be 14.2% compared to 3.3% gain in the prior year.

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

STATE OF NEW JERSEY JUDICIAL RETIREMENT SYSTEM

Management Discussion and Analysis, Continued

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 \$8.5 million 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.

DEDUCTIONS FROM FIDUCIARY NET ASSETS 2004 - 2003

	2004	2003	Increase (Decrease)
Benefits	\$27,064,394	\$25,551,000	\$1,513,394
Refunds & Adjustments	139,889	128,278	11,611
Administrative Expenses	169,824	43,207	126,617
Totals	\$27,374,107	\$25,722,485	\$1,651,622

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 \$1.5 million or 5.9% primarily because the increased number of retired members are receiving benefits. Refunds slightly increased by 9.1% due to a small increase in employer benefit transfers to other retirement systems. Administrative expenses increased by 293.1% primarily because the System adjusted its allocation of administrative expense for manpower.

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

Benefit payments increased by \$1.0 million or 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.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 86.4% for fiscal year 2004 and 96.0% for 2003 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
JUDICIAL RETIREMENT SYSTEM**

Statements of Fiduciary Net Assets

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets:		
Cash	\$ 15,943	59,056
Investments, at fair value:		
Cash Management Fund	27,456,203	22,479,982
Common Pension Fund A	161,198,258	142,307,752
Common Pension Fund B	64,499,533	62,087,154
Common Pension Fund D	64,443,023	62,440,207
Mortgage Backed Securities	4,963,743	10,092,359
Total investments	<u>322,560,760</u>	<u>299,407,454</u>
Receivables:		
Contributions:		
Members	66,107	67,924
Accrued interest and dividends	1,366,875	1,419,864
Members' loans	610,046	549,415
Total receivables	<u>2,043,028</u>	<u>2,037,203</u>
Total assets	<u>324,619,731</u>	<u>301,503,713</u>
Liabilities:		
Accounts payable and accrued expenses	20,147	20,428
Retirement benefits payable	2,219,424	2,085,227
Total liabilities	<u>2,239,571</u>	<u>2,105,655</u>
Net Assets :		
Held in trust for pension benefits	<u>\$ 322,380,160</u>	<u>299,398,058</u>

See schedule of funding progress on page 15.

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Additions:		
Contributions:		
Members	\$ 1,795,721	2,578,620
Employers	<u>5,084,315</u>	<u>9,065,435</u>
Total contributions	<u>6,880,036</u>	<u>11,644,055</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	35,511,678	(951,113)
Interest	5,285,976	6,347,676
Dividends	<u>2,696,195</u>	<u>2,326,256</u>
	43,493,849	7,722,819
Less: investment expense	<u>17,676</u>	<u>22,371</u>
Net investment income	<u>43,476,173</u>	<u>7,700,448</u>
Total additions	<u>50,356,209</u>	<u>19,344,503</u>
Deductions:		
Benefits	27,064,394	25,551,000
Refunds of contributions	139,889	128,278
Administrative expenses	<u>169,824</u>	<u>43,207</u>
Total deductions	<u>27,374,107</u>	<u>25,722,485</u>
Change in net assets	22,982,102	(6,377,982)
Net assets - Beginning of year	<u>299,398,058</u>	<u>305,776,040</u>
Net assets - End of year	<u><u>\$ 322,380,160</u></u>	<u><u>299,398,058</u></u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2004 and 2003

(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.

Significant 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:

	2003	2002
Retirees and beneficiaries receiving benefits		
currently and terminated employees entitled to benefits but not yet receiving them	406	386
Active members:		
Vested	228	223
Non-vested	205	215
Total active members	433	438
Total	839	824

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." Employer contributions are recognized when payable to the System. Benefits and refunds are recognized when payable in accordance with the terms of the System.

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 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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

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, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, 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, 2004 and 2003, 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 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 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.

Under the new 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.

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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

Cash and Cash Equivalents:

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, also requires that deposits held in financial institutions be categorized to indicate the level of custodial 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, 2004 and 2003, which include funding for the July 1, 2004 and 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 \$3.36 million and \$8.47 million to satisfy the actuarially accrued liability in fiscal year 2004 and 2003, respectively.

(4) FUNDS

The System maintains the following legally required funds:

Members' Annuity Savings Fund (2004 - \$25,325,098; 2003 - \$22,943,222)

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

Contingent Reserve Fund (2004 - \$155,567,001; 2003 - \$144,763,036)

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 (2004 - \$141,488,061; 2003 - \$131,691,800)

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 additional 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 2004 and 2003) is credited to the Retirement Reserve Fund.

(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.

Schedule 1

**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%
June 30, 2003	372,835,265	431,450,218	58,614,953	86.4%	61,600,500	95.2%

Schedule 1, Continued

**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, 2003 and 2002 actuarial valuations included the following:

	June 30, 2003	June 30, 2002
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	30 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%
2004	18,720,233	3,355,438	17.9%

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, 2004

	MEMBERS'			TOTAL
	ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	
Additions:				
Contributions:				
Members	\$ 1,795,721	—	—	1,795,721
Employers	—	5,084,315	—	5,084,315
Total contributions	1,795,721	5,084,315	—	6,880,036
Distribution of net investment income	1,961,048	29,992,092	11,523,033	43,476,173
Total additions	3,756,769	35,076,407	11,523,033	50,356,209
Deductions:				
Benefits	—	487,548	26,576,846	27,064,394
Refunds of contributions	—	139,889	—	139,889
Administrative expenses	—	169,824	—	169,824
Total deductions	—	797,261	26,576,846	27,374,107
Net increase (decrease) before transfers among reserves	3,756,769	34,279,146	(15,053,813)	22,982,102
Transfers among reserves:				
Retirements	(1,374,893)	(23,475,181)	24,850,074	—
Net increase (decrease)	2,381,876	10,803,965	9,796,261	22,982,102
Net assets held in trust for pension benefits:				
Beginning of year	22,943,222	144,763,036	131,691,800	299,398,058
End of year	\$ 25,325,098	155,567,001	141,488,061	322,380,160

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