

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



1988
Annual Report

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-Third Annual Report in compliance with the provisions of N.J.S.A. 43:16A-13.

Respectfully submitted,

MICHAEL DiSALVO,

Chairman

Annual Report

Chapter 263, Laws of 1987, permits persons who were appointed as municipal firefighters or policemen on or after March 1, 1987, and prior to June 1, 1987, and who were removed or have been directed to be removed or declared ineligible for such positions upon the grounds that they were over 35 years of age on the announced closing date for the examination for those positions, to be restored to those positions or continue in those positions and thereby continue their PFRS membership. This law was approved and became effective on September 8, 1987.

Chapter 359, Laws of 1987, permits the governing body of any municipality with a population between 28,500 and 35,500 as of the 1980 census that is located within a county of the second class that has a population of less than 300,000 as of the 1980 census to adopt the PFRS via ordinance rather than by the usual referendum procedure. The clerk of the municipality is to notify the PFRS Board of Trustees immediately after the passage of such ordinance. The effective date of enrollment in the PFRS in such cases will be the first day of January following the passage of the ordinance. This law was approved on January 5, 1988, with the ordinance adoption provisions being retroactively effective back to April 1, 1987, but with an expiration date of December 31, 1988.

**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.

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

Municipalities listed by Counties:

ATLANTIC COUNTY—Absecon City, Brigantine, Buena Boro, 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, 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.

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

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

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, Spotwood, Woodbridge Fire District No. 1, Woodbridge Fire District No. 7, Woodbridge Township.

MONMOUTH COUNTY—Aberdeen Township, Allenhurst, Asbury Park, Atlantic Highlands, Avon-by-the-Sea, Belmar, Bradley Beach, Brielle, Deal, Eatontown, Englishtown, Fair Haven, Freehold, Freehold Township, Hazlet Township, Highlands, Holmdel Township, Howell Township, Interlaken, Keansburg, Keyport, Little Silver, Long Branch, Manalapan Township, Manasquan, Matawan, 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.

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OCEAN COUNTY—Bayhead Borough, Berkeley Township, Brick Township, Dover Township, Jackson Township, Lacey Township, Lakehurst, Lakewood 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—Bryman 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, 1988. The net active membership increased by 975.

	<u>June 30</u> <u>1988</u>	<u>June 30</u> <u>1987</u>
TOTAL ENROLLMENT	2,073	3,266
SEPARATIONS		
(Withdrawals and Deaths)	626	714
RETIREMENTS	919	808
NET ACTIVE	32,936	30,929

A COMPARISON OF THE ASSETS TO THE MEMBERSHIP

<u>Year Ended June 30</u>	<u>Net Active Membership</u>	<u>Assets of the Fund</u>
1950	4,545	\$ 3,310,901
1955	7,843	21,694,273
1960	11,475	67,173,255
1965	14,501	148,611,111
1970	18,442	332,440,199
1975	25,080	703,023,328
1980	26,714	1,383,370,617
1984	27,885	2,247,285,760
1985	28,786	2,522,118,860
1987	30,929	3,396,459,368
1988	32,936	3,940,310,375

RETIREMENT

Significant increases in the retirement program indicate the maturity of the system. The new retirements that were effected during the year are classified as follows:

- 27 service retirements
- 761 special retirements
- 99 ordinary disabilities
- 26 accidental disabilities
- 1 accidental death
- 6 deferred retirements

During the period of the report, 69 insurance settlements were made to the beneficiaries of deceased active members resulting in a total payment of \$7,165,216. There were also insurance payments totaling \$2,482,478 to the beneficiaries of 173 retired members who died during the year.

Ernst & Whinney

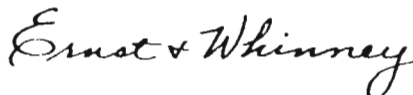
Suite 200
202 Carnegie Center
Princeton, New Jersey 08540
609/243-0303

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, 1988 and 1987. 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, 1988 and 1987, 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 signature of Ernst & Whinney is written in a cursive, handwritten style.

Princeton, New Jersey
October 28, 1988

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

	June 30,	
	<u>1988</u>	<u>1987</u>
ASSETS		
Investments, at cost:		
Bonds (market value \$52,636,437 in 1988 and \$76,145,252 in 1987)	\$ 57,411,568	\$ 83,140,886
Common Pension Fund A (market value \$1,808,068,405 in 1988 and \$1,860,152,267 in 1987)	1,422,194,290	1,137,957,053
Common Pension Fund B (market value \$1,383,816,998 in 1988 and \$1,271,891,784 in 1987)	1,377,783,965	1,241,335,744
Cash Management Fund (market value \$108,186,305 in 1988 and \$87,143,634 in 1987)	108,186,305	87,143,634
Mortgages (market value \$565,150,129 in 1988 and \$529,235,419 in 1987)	<u>572,615,198</u>	<u>541,038,858</u>
TOTAL INVESTMENTS	3,538,191,326	3,090,616,175
Receivables:		
Contributions:		
Members	15,702,838	13,453,819
Employers	163,729,664	136,498,886
Investments:		
Accrued interest	39,362,015	36,845,423
Dividends	12,883,915	10,729,010
Members' loans	108,632,262	98,277,940
Due from Pension Adjustment Fund	1,816,096	1,630,612
Receivable for investment sales	54,014,935	
Other	<u>5,977,324</u>	<u>8,407,503</u>
TOTAL RECEIVABLES	402,119,094	305,843,193
TOTAL ASSETS	<u>\$3,940,310,375</u>	<u>\$3,396,459,368</u>

June 30,

1988 1987

LIABILITIES AND FUND BALANCES

Liabilities:

Retirement benefits payable	\$ 13,861,401	\$ 12,052,618
Death benefits payable	986,092	1,181,513
Cash overdraft	2,945,667	804,431
Payable for investments purchased	74,342,384	
Accounts payable and accrued expenses	2,329,435	2,204,667
TOTAL LIABILITIES	<u>94,464,979</u>	<u>16,243,229</u>

Fund Balances:

Members' annuity savings fund	612,591,697	554,770,513
Pension accumulation fund	1,665,948,010	1,452,093,878
Retirement reserve fund	1,531,923,776	1,342,445,586
Special reserve fund	35,381,913	30,906,162
Other fund	0	0
TOTAL FUND BALANCES	<u>3,845,845,396</u>	<u>3,380,216,139</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$3,940,310,375</u>	<u>\$3,396,459,368</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, 1988	1987
REVENUES							
Contributions:							
Members	\$ 90,936,178					\$ 90,936,178	\$ 81,138,926
Employers		\$ 190,286,946				190,286,946	161,057,379
Investment revenue		232,717,144	\$ 90,854,456	\$ 4,475,751		328,047,351	331,440,601
Pension Adjustment Fund					\$20,862,270	20,862,270	19,320,124
Transfers from other system	1,629,520	10,292,612				12,922,132	26,877,449
Other						0	65,885
TOTAL REVENUES	93,565,698	433,296,702	90,854,456	4,475,751	20,862,270	643,054,877	619,882,364
EXPENSES							
Benefit payments			137,856,735			137,856,735	119,165,025
Withdrawals	5,485,798					5,485,798	4,877,758
Noncontributory group insurance death benefits		12,717,962				12,717,962	12,835,426
Pension Adjustment Fund					20,862,270	20,862,270	19,317,898
Other		502,855				502,855	265,110
TOTAL EXPENSES	5,485,798	13,220,817	137,856,735	0	20,862,270	177,425,620	156,461,217
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES							
	88,079,900	420,075,885	(\$ 47,002,279)	4,475,751	0	465,629,257	463,421,147
Transfers between funds for:							
Retirements	(30,246,006)	(202,953,071)	233,199,077			0	0
Other	(12,710)	(3,268,682)	3,281,392			0	0
Fund balances at beginning of year	554,770,513	1,452,093,818	1,342,445,586	30,906,162	0	3,380,216,139	2,916,794,992
FUND BALANCES AT END 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

See notes to financial statements.

Prior year balances reclassified to conform to current year reporting.

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

	Year Ended June 30,	
	1988	1987
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expense	\$465,629,257	\$463,421,147
Items not requiring (providing) financial resources:		
Accretion and amortization—net	(1,401,361)	(1,491,380)
(Gain) Loss on sales and maturities of long-term investments	6,863,160	(10,170,608)
Net realized gain on Common Pension Funds A and B	(102,872,321)	(110,899,270)
	<u>368,218,735</u>	<u>340,859,889</u>
Proceeds from sales and maturities of long-term investments	260,951,457	333,801,825
Increase in retirement benefits payable	1,808,783	1,414,146
Increase (decrease) in death benefits payable	(195,421)	408,983
Increase in payable for investments purchased	74,342,384	0
Increase in accounts payable and accrued expenses	124,768	283,021
	<u>705,250,706</u>	<u>676,767,864</u>
TOTAL SOURCES OF FINANCIAL RESOURCES		
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	590,073,415	606,919,778
Increase in Cash Management Fund	21,042,671	29,373,252
Increase in contribution receivables	29,479,797	21,968,289
Increase in accrued investment income	4,671,497	5,611,034
Increase in members' loans	10,354,322	2,475,458
Increase in receivable for investment sales	54,014,935	0
Increase (decrease) in other receivables	(2,244,695)	7,557,796
	<u>707,391,942</u>	<u>673,905,607</u>
TOTAL USES OF FINANCIAL RESOURCES		

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(DECREASE) INCREASE

IN CASH	(2,141,236)	2,862,257
CASH OVERDRAFT, beginning of year	(804,431)	(3,666,688)
CASH OVERDRAFT, end of year	<u>(\$ 2,945,667)</u>	<u>(\$ 804,431)</u>

See notes to financial statements.

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

June 30, 1988

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, 1988, undistributed net realized gains amounted to \$103,341,186 consisting of \$103,205,409 in Common Pension Fund A and \$135,777 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 are allocated to the State and State-related (local governmental agencies) employers and they are responsible for such cost. The System's assets available for paying benefits are not reduced for administrative expenses.

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

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, 1987, 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>10,011</u>
Active members:	
Vested	17,549
Nonvested	<u>13,976</u>
TOTAL	<u>31,525</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.

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

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE B—DESCRIPTION OF THE SYSTEM—Continued

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.

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.

NOTES TO FINANCIAL STATEMENTS—Continued

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE C—PENSION BENEFIT OBLIGATION—Continued

The unfunded pension benefit obligation was determined as part of the annual actuarial valuation dated June 30, 1987.

The pension benefit obligation as of June 30, 1987 was:

Pension benefit obligations:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$1,268,292,000
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Current employees:

Accumulated employees contributions with interest	554,771,000
Employer-financed vested	1,641,297,000
Employer-financed nonvested	<u>504,963,000</u>

Total pension benefit obligation	3,969,323,000
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Net assets (fund balance) available for benefits at book value (market value of \$4,114,168,320)	<u>3,380,253,189</u>
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Unfunded pension benefit obligation	<u>\$ 589,069,811</u>
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The above liability was calculated based on the actuarial assumptions of a) rate of return on investments of 7½% compounded annually; 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.

There were no changes in actuarial assumptions or material plan amendments during the Plan year.

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, 1988, paid July

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE D—CONTRIBUTION POLICY—Continued

1, 1987, is based on the 1986 actuarial valuation and the State-related employer contributions are accrued at June 30, 1988, based on the most recent 1987 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 \$183,468,233 as of June 30, 1987, 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 \$126,173,414. This amount is to be funded over approximately 24 years.

Total contributions for the year ended June 30, 1988 were \$281,223,124 (\$190,286,946 from employers and \$90,936,178 from employees or 19.17% and 9.16%, respectively, of annual covered compensation based on the most recent actuarial valuation) of which \$176,068,192 represented the normal contribution amount and \$9,915,033 relates to the accrued liability funding.

The contributing employers as of June 30, 1988 were:

State	1
Municipalities	<u>433</u>
TOTAL	<u>434</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.

No actuarial assumptions were changed during the 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

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE E—DESCRIPTION OF FUND BALANCES—Continued

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 1988 and 1987) 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.

Special Reserve Fund: The Special Reserve Fund is the Fund to which any excess interest earnings and net realized gains or losses from the sale of securities are transferred. The maximum limit on the accumulation of this amount is 1% of the book value of the investments of the Retirement Reserve Fund. Amounts in excess of 1% are credited to the Pension Accumulation Fund.

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

NOTE F—INVESTMENTS

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

A summary of investment securities as of June 30, 1988 and the approximate market values follows:

	<u>Book Value</u>	<u>Market Value</u>
	(000's)	
Industrial bonds	\$ 12,428	\$ 11,751
Telephone bonds	5,559	4,826
Gas, electric and water bonds	31,192	28,314
Finance companies—senior debt	1,248	1,173
Railroad equipment obligations	245	234
Other	<u>6,740</u>	<u>6,339</u>
	57,412	52,637
Mortgages	572,615	565,150
Common Pension Fund A	1,422,194	1,808,068
Common Pension Fund B	1,377,784	1,383,817
State of New Jersey Cash Management Fund	<u>108,186</u>	<u>108,186</u>
TOTAL	<u><u>\$3,538,191</u></u>	<u><u>\$3,917,858</u></u>

Investments in excess of 5% of net assets are:

	June 30	
	<u>1988</u>	<u>1987</u>
	(In 000's)	
Common Pension Fund A	\$1,422,194	\$1,137,957
Common Pension Fund B	1,377,784	1,241,336

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.

POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY

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 24 and 25.

**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 & Whinney

October 28, 1988

**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) Net Assets Available For Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4)	(5)	(6)
				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%

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 seven 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						Total
	Employer Contributions		Percentage Of Annual Covered Compensation	Percentage Of Annual Covered Compensation		Investment Income	
	Members Contributions	State		Local			
1979	\$34,210,802	\$ 3,639,825	.84%	\$ 59,893,273	13.84%	\$ 73,466,122	\$171,210,022
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

Plan Fiscal Year	EXPENSES BY TYPE				
	Benefits		Withdrawals	Transfers To Other Retirement Systems	Total
	Retirement	Other			
1979	\$ 23,276,588		\$2,822,623	\$ 269,649	\$ 26,368,860
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

Contributions were made in accordance with actuarially determined contribution requirements.

ACTUARIAL VALUATION AS OF JUNE 30, 1987

ASSETS

Present Assets to Systems Creditable to:		
Retirement Reserve Fund:		
Credited to fund	\$1,342,482,636	
Add reserve transferable from Pension		
Accumulation Fund	<u>3,546,369</u>	\$1,346,029,005
Annuity Savings Fund		554,770,513
Pension Accumulation Fund excluding contribution		
accruals and including interest accruals:		
Credited to fund	\$1,317,396,764	
Deduct reserve transferable		
to Retirement Reserve Fund	<u>3,546,369</u>	1,313,850,395
Special Reserve Fund		<u>30,906,162</u>
Total		\$3,245,556,075
Prospective contributions of members	\$1,007,286,333	
Prospective contributions of employers including		
contribution accruals:		
Normal contributions	2,230,018,870	
Accrued liability contributions	<u>126,173,414</u>	3,363,478,617
<u>Total Assets</u>		<u>\$6,609,034,692</u>

LIABILITIES

Present value of benefits payable on account		
of beneficiaries now drawing allowances from		
Retirement Reserve Fund		\$1,346,029,005
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	\$3,756,617,454	
Vested terminated benefits	2,422,260	
Ordinary disability retirement allowances	152,756,091	
Accidental disability retirement allowances	156,556,232	
Ordinary death benefits on account of		
members dying prior to retirement	251,331,603	
Lump sum death benefits payable upon		
death after retirement	164,416,256	
Accidental death benefits	47,454,004	
Return of members' contributions upon		
withdrawal before retirement	87,697,586	
Pensions to beneficiaries of employees		
payable upon death after retirement	<u>643,754,201</u>	
<u>Total Liabilities</u>		<u>\$6,609,034,692</u>

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Police and Firemen's Retirement System

State of New Jersey

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