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TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY



1996
ANNUAL REPORT

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STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY
Brian W. Clymer, Treasurer

DIVISION OF PENSIONS AND BENEFITS
Margaret M. McMahon, Director

TO THE HONORABLE
CHRISTINE TODD WHITMAN
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor Whitman:

The Board of Trustees of the Teachers' Pension and Annuity Fund is pleased to present the Fiscal Year 1996 Annual Report in accordance with the provisions of N.J.S.A. 18A:66-59.

Respectfully submitted,

HARRY BALDWIN
Chairperson

**TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY
BOARD OF TRUSTEES
as of June 30, 1996**

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THOMAS BRYAN, State Treasurer Representative

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NEW JERSEY DIVISION OF PENSIONS AND BENEFITS
50 West State Street • Trenton, NJ 08625-0295

SIGNIFICANT LEGISLATION

CHAPTER 221, LAWS OF 1995 liberalizes the provision first instituted with Chapter 96, P.L. 1984 regarding when a benefit becomes effective upon the death of a member who has filed for retirement from the Public Employees' Retirement System (PERS) or the Teachers' Pension and Annuity Fund (TPAF).

Prior to enactment of Chapter 221, P.L. 1995, if a member who filed for retirement under PERS or TPAF died within 30 days after the date of retirement or the date of board approval, whichever was later, the retirement allowance would not become effective and the member would have been considered an active member at the time of death. However, if a member died 30 days or more after the application for retirement was filed, retirement would have become effective if the application was received by the system prior to the date of death, if the deceased member had terminated covered public employment at least one day prior to the effective date of retirement and had designated a beneficiary under an optional settlement and if the surviving beneficiary made the appropriate written request.

This law grants survivorship benefits to a deceased member's beneficiary under an optional settlement if the member's application for retirement was filed with the system prior to the date of death without the passage of 30 days or more between the filing of the retirement application and the date of the member's death, without the requirement that the deceased member terminate covered public employment at least one day prior to the effective date of retirement and without the requirement that the system receive the application prior to death.

This law was approved on August 15, 1995 and is retroactive to applications for retirement filed on or after January 1, 1992, except in the case where the beneficiary for the retired survivor's benefit is someone other than the beneficiary designated for the active death benefit. This law also allows the Division of Pensions and Benefits to adjust any retired benefits retroactively payable for employee contributions and active death benefits previously paid.

CHAPTER 332, LAWS OF 1995 changes the basis upon which the retirement allowance for members retiring under the veterans' benefits of the Teachers' Pension and Annuity Fund or the Public Employees' Retirement System is computed. Previously the computation of veterans' benefits was based upon the compensation received during the last year of service. This law provides that the basis shall be the compensation received for the 12-month period of membership that provides the largest possible benefit.

This law was approved on January 5, 1996.

CHAPTER 369, LAWS OF 1995 revises the offset of workers' compensation benefits payable to accidental disability retirees of the Teachers' Pension and Annuity Fund (TPAF), Public Employees' Retirement System (PERS), Police and Firemen's Retirement System (PFRS) or State Police Retirement System (SPRS). Offsets against ordinary disability pensions have been eliminated.

Previously, when an active member of the TPAF, PERS, PFRS, or SPRS was receiving periodic workers' compensation benefits and retired on an accidental disability retirement allowance, the retiree's monthly pension payment was reduced to reflect the receipt of the workers' compensation award. The amount of the reduction was computed on the basis of the "actuarial equivalent" as though it were to be paid as an annuity; accordingly, the reduction continued for the duration of the retiree's lifetime, even though payments of the workers' compensation award may have been completed prior to the retiree's death.

Under Chapter 369, P.L. 1995, the accidental disability retiree's pension is to be reduced dollar-for-dollar by the full amount of the retiree's workers' compensation benefit received as long as the periodic benefits are paid. Upon receipt of the final workers' compensation payment, the retiree's monthly pension benefit will be restored to the amount to which the retiree was entitled prior to the reduction.

The law also provides that the reduction will not affect the retiree's cost-of-living adjustment benefits or survivor benefits that may be payable upon the death of the retiree.

This law was approved on January 5, 1996.

CHAPTER 406, LAWS OF 1995 establishes certain inception and termination dates for the Lebanon, Grenada and Panama peacekeeping missions and for Operation "Desert Shield/Desert Storm" in order to insure eligibility for certain benefits for the veterans of those missions. In addition, this law allows a member of the PERS or TPAF to rescind an agreement to purchase service credit if the member is subsequently classified as a veteran.

This law establishes 1) December 1, 1987 as the termination date of the Lebanon peacekeeping mission; 2) October 23, 1983 as the inception date of the Grenada peacekeeping mission and November 21, 1983 as the termination date; 3) December 20, 1989 as the inception date for the Panama peacekeeping mission and January 31, 1990 as the termination date; and 4) August 2, 1990 as the inception date of Operation "Desert Shield/Desert

Significant Legislation, cont.

Storm" (the termination date remains open). The termination dates for the Lebanon, Grenada and Panama missions will be later if the termination dates proclaimed by the President or Congress are later than the specific dates noted above and the inception dates of the Panama mission and Operation "Desert Shield/Desert Storm" will be earlier if the inception dates proclaimed by the President or Congress are earlier than the specific dates noted above.

These dates have been recognized by the United States Department of Defense as the inception and termination dates of these missions for the purpose of establishing eligibility for service medals for members of the United States armed forces who participated in these missions.

This law also allows a member of the PERS or TPAF to rescind an agreement to purchase service credit if the member, subsequent to entering the agreement, is classified as a veteran as a result of an enactment of law, adoption of a rule change or some other official act. Members have two years from either the effective date of this law or the official act, whichever is later, to terminate the obligation to complete the purchase and to receive a return of contributions or other payments made on or after the official act in connection with the purchase. Any service credited to the member in conjunction with the purchase will be reduced proportionately.

This law was approved on January 10, 1996.

CHAPTER 408, LAWS OF 1995 provides that the receipt of a public pension is expressly predicated upon the rendering of honorable service by a public officer or employee. This law authorizes the board of trustees of any public pension fund or retirement system to order the forfeiture of all or part of the pension or retirement benefit of a member for misconduct occurring during public service which renders the service or part thereof dishonorable.

This law establishes 11 factors which a board of trustees is to consider and balance in view of the goals of the pension statutes when determining whether forfeiture or partial forfeiture is appropriate. These factors are:

1. the member's length of service;
2. the basis for retirement;
3. the extent to which the member's pension has vested;
4. the duties of the member;
5. the member's public employment history and record covered under the retirement system;
6. any other public employment or service;

7. the nature of the misconduct or crime, including the gravity or substantiality of the offense, whether it was a single or multiple offense and whether it was continuing or isolated;
8. the relationship between the misconduct and the member's public duties;
9. the quality of moral turpitude or the degree of guilt or culpability, including the member's motives and reasons, personal gain and similar considerations;
10. the availability and adequacy of other penal sanctions; and
11. other personal circumstances relating to the member which bear upon the justness of forfeiture.

This law also provides that when a board of trustees determines that partial forfeiture is appropriate, it shall order that benefits be calculated as if the accrual of pension rights terminated as of the date the misconduct first occurred, or such other date as required to effectuate a forfeiture that fairly reflects both the nature and extent of the employee's misconduct and the honorable service rendered by the employee.

Additionally, the law established a procedure whereby the Director of the Division of Criminal Justice would collect and transmit, through the Division of Pensions and Benefits, to the appropriate board of trustees, information concerning the prosecution or conviction of a State or local government employee who is a member of a public pension fund or retirement system. State and local public employers would be required to inform the board of trustees whenever an officer or employee who is a member of the fund or system is removed from office or employment. This information would be reviewed by the board of trustees to determine whether a forfeiture should be imposed.

This law was approved on January 10, 1996.

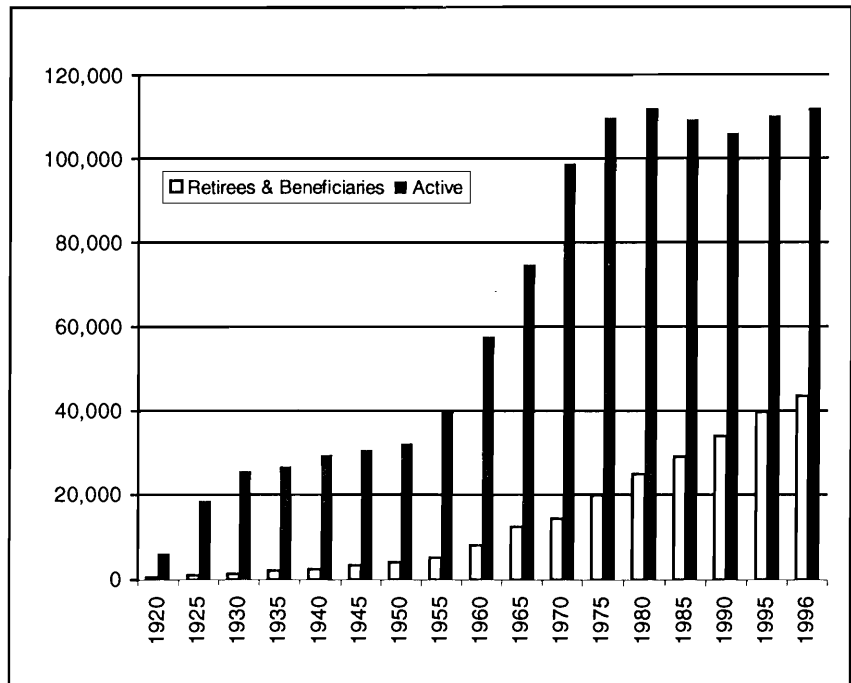
CHAPTER 410, LAWS OF 1995 changes the calculation of the life insurance death benefit paid to beneficiaries of members of the Teachers' Pension and Annuity Fund (TPAF) after retirement. Previously, the retiree's life insurance benefit was based on the compensation received during the last year of creditable service. This law provides a benefit based on the compensation received during the last year of creditable service or on the compensation received in the year of the member's highest contractual salary, whichever is higher.

This law was approved on January 10, 1996.

MEMBERSHIP

- As of June 30, 1996, the active membership of the system totaled 111,942*.
- There were 43,476 retirees and beneficiaries receiving annual pensions totaling \$806,887,655. (This includes benefits paid under the provisions of the Pension Adjustment Act).
- Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$40,658,401.
- The system's assets totaled \$15,198,146,957 at the close of the fiscal year 1996.

*Total Inactive Membership as of June 30, 1996 was 8,502.



MEMBERSHIP ACTIVITY

During fiscal year 1996, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Teachers' Pension and Annuity Fund of New Jersey.

- **LOANS** - 25,269 members applied for loans on their accounts. The total loans receivable as of June 30, 1996 is \$178,819,299.
- **RETIREMENT** - 2,533 members retired under the following retirement types:

<u>TYPE OF RETIREMENT</u>		<u>OPTION SELECTION</u>	
Service	1,116	Maximum	1,068
Early	834	Option 1	445
Deferred	101	Option 2	463
Ordinary Disability	149	Option 3	527
Accidental Disability	16	Option 4	30
Veteran	317		
		TOTAL	2,533
TOTAL	2,533		

KPMG PEAT MARWICK
Princeton Pike Corporate Center
P.O. Box 7468
Princeton, NJ 08543

INDEPENDENT AUDITORS' REPORT

Board of Trustees
State of New Jersey
Teachers' Pension and Annuity Fund:

We have audited the accompanying balance sheets of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1996 and 1995, and the related statements of revenues, expenses and changes in fund balances for the years then ended. These financial statements are the responsibility of the Fund'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 audits 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 Teachers' Pension and Annuity Fund as of June 30, 1996 and 1995, and its revenues, expenses and changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the schedules of analysis of funding progress and revenues by source and expenses by type is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

August 30, 1996

/s/ KPMG Peat Marwick

**State of New Jersey
Teachers' Pension and Annuity Fund
Balance Sheets
June 30, 1996 and 1995**

<u>Assets</u>	<u>1996</u>	<u>1995</u>	<u>Liabilities and Fund Balances</u>	<u>1996</u>	<u>1995</u>
Investments, at cost:			Liabilities:		
Bonds (market value of \$214,847,827 in 1996 and \$254,536,239 in 1995)	\$ 211,201,859	247,486,158	Retirement benefits payable	\$ 69,058,968	63,536,895
Common Pension Fund A (market value of \$9,596,295,762 in 1996 and \$8,900,856,432 in 1995)	5,647,480,146	5,421,738,159	Death benefits payable	2,080,598	1,255,993
Common Pension Fund B (market value of \$4,786,811,088 in 1996 and \$4,592,446,370 in 1995)	4,712,661,070	4,356,582,409	Cash overdraft	2,754,463	4,455,247
Common Pension Fund D (market value of \$3,109,267,559 in 1996 and \$2,032,536,842 in 1995)	2,421,290,937	1,649,105,314	Accounts payable and accrued expenses	8,864,786	4,603,320
Cash Management Fund (market value of \$790,219,121 in 1996 and \$773,862,852 in 1995)	790,219,121	773,862,852	Total liabilities	82,758,815	73,851,455
Mortgages (market value of \$612,651,033 in 1996 and \$484,875,932 in 1995)	614,201,216	476,111,844	Fund balances:		
Total investments	14,397,054,349	12,924,886,735	Members' Annuity Savings Fund and Accumulative Interest	3,495,617,962	3,142,541,013
Receivables:			Contingent Reserve Fund	3,511,762,280	3,118,679,510
Contributions:			Retirement Reserve Fund	7,903,093,906	7,069,544,130
Members	66,682,415	62,570,208	Special Reserve Fund	143,371,410	128,699,854
Employer	13,904,072	14,092,768	Contributory Group Insurance Insurance Premium Fund	61,542,584	57,732,880
Investments:			Total fund balances	15,115,388,142	13,517,197,387
Accrued interest	489,303,338	377,665,012			
Dividends	50,106,252	53,753,590			
Member loans	181,061,069	157,996,081			
Other	35,462	84,448			
Total receivables	801,092,608	666,162,107			
Total assets	\$15,198,146,957	13,591,048,842	Total liabilities and fund balances	\$15,198,146,957	13,591,048,842

See accompanying notes to financial statements.

State of New Jersey
Teachers' Pension and Annuity Fund
Statements of Revenues, Expenses and Changes in Fund Balances
Years ended June 30, 1996 and 1995

	1996						
	Member's Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Fund	Other Fund	Total
Revenues:							
Contributions:							
Members	\$ 264,852,629	-	-	-	21,449,541	-	286,302,170
Employers	-	194,881,707	-	-	-	-	194,881,707
Investment revenue	259,046,305	1,167,599,425	646,743,698	14,671,557	3,638,277	-	2,091,699,262
Other	-	-	-	-	-	9,582	9,582
Total revenues	523,898,934	1,362,481,132	646,743,698	14,671,557	25,087,818	9,582	2,572,892,721
Expenses:							
Benefit payments	-	-	677,938,451	-	-	-	677,938,451
Cost-of-living adjustments	-	-	128,939,621	-	-	-	128,939,621
Withdrawals	17,681,852	-	-	-	-	-	17,681,852
Noncontributory group insurance death benefits	-	19,380,289	-	-	-	-	19,380,289
Administrative expenses	-	9,364,176	-	-	-	-	9,364,176
Health benefit premiums and other	-	100,109,880	-	-	21,278,114	9,582	121,397,576
Total expenses	17,681,852	128,854,345	806,878,072	-	21,278,114	9,582	974,701,965
Excess (deficiency) of revenues over expenses	506,217,082	1,233,626,787	(160,134,374)	14,671,557	3,809,704	-	1,598,190,756
Transfers among funds:							
Retirements	(153,866,549)	(520,857,438)	674,723,987	-	-	-	-
Others	726,416	(319,686,579)	318,960,163	-	-	-	-
Fund balances at beginning of year	3,142,541,013	3,118,679,510	7,069,544,130	128,699,853	57,732,880	-	13,517,197,386
Fund balances at end of year	\$ 3,495,617,962	3,511,762,280	7,903,093,906	143,371,410	61,542,584	-	15,115,388,142

See accompanying notes to financial statements.

**State of New Jersey
Teachers' Pension and Annuity Fund
Statements of Revenues, Expenses and Changes in Fund Balances
Years ended June 30, 1996 and 1995**

	1995						
	Member's Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Fund	Other Fund	Total
Revenues:							
Contributions:							
Members	\$ 223,965,379	-	-	-	20,679,862	-	244,645,241
Employers	-	72,677,434	-	-	-	-	72,677,434
Investment revenue	237,708,126	608,967,340	550,297,528	7,180,892	3,131,604	-	1,407,285,490
Other	-	-	-	-	-	12,803	12,803
Total revenues	461,673,505	681,644,774	550,297,528	7,180,892	23,811,466	12,803	1,724,620,968
Expenses:							
Benefit payments	-	-	620,541,521	-	-	-	620,541,521
Cost-of-living adjustments	-	-	124,646,505	-	-	-	124,646,505
Withdrawals	11,120,534	-	-	-	-	-	11,120,534
Noncontributory group insurance death benefits	-	17,113,110	-	-	-	-	17,113,110
Administrative expenses	-	8,594,593	-	-	-	-	8,594,593
Health benefit premiums and other	-	94,856,807	-	-	18,707,417	12,803	113,577,027
Total expenses	11,120,534	120,564,510	745,188,026	-	18,707,417	12,803	895,593,290
Excess (deficiency) of revenues over expenses	450,552,971	561,080,264	(194,890,498)	7,180,892	5,104,049	-	829,027,678
Transfers among funds:							
Retirements	(206,880,011)	(771,084,298)	997,964,309	-	-	-	-
Others	509,618	241,788,352	(242,297,970)	-	-	-	-
Fund balances at beginning of year	2,898,358,435	3,086,895,192	6,528,768,289	121,518,962	52,628,831	-	12,688,169,709
Fund balances at end of year	\$ 3,142,541,013	3,118,679,510	7,069,544,130	128,699,854	57,732,880	-	13,517,197,387

See accompanying notes to financial statements.

**State of New Jersey
Teachers' Pension and Annuity Fund**

Notes to Financial Statements

June 30, 1996 and 1995

(1) Summary of Significant Accounting Policies

The financial statements of the State of New Jersey Teachers' Pension and Annuity Fund (the Fund) are prepared on the accrual basis of accounting and conform to generally accepted accounting principles used for pension trust funds.

Financial statement footnote disclosures are in accordance with Statement Numbers 3 and 5 of the Government Accounting Standards Board (GASB), "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements" and "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers," respectively.

Security valuation:

Bonds with fixed maturities are reported at cost, adjusted for amortization of premiums or accretion of discounts on a 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.

State of New Jersey Cash Management Fund units are stated at a cost of \$1.00 per unit, which approximates quoted market value. Investment income is recognized when earned and is distributed daily on the basis of units of ownership.

Mortgages are valued at the amount of unpaid principal balance of the loan, adjusted for amortization of premiums or 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 rec-

ognized as investment income when the sale occurs. Interest income on investments is recognized when earned and dividends are recorded on the ex-dividend date.

Actuarial valuations:

The benefit obligations were determined as part of the most recent annual actuarial valuations dated March 31, 1995 and 1994 (see note 3). The liabilities were determined as of March 31 and projected forward to June 30, allowing for increases in benefits and variations in the population during the three-month period. The State of New Jersey contribution for the years ended June 30, 1996 and 1995 was based on the 1994 and revised 1993 actuarial valuations, respectively.

Administrative expenses:

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund and are included in the normal cost of future employer contributions.

(2) Description of the Fund

Organization:

The Fund is a single-employer contributory defined benefit plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. The Fund is included along with other State-administered pension trust and agency funds in the general purpose financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement benefits, medical benefits (which are subordinate to the retirement benefits) for qualified retirees, and other benefits to members. Membership in the Fund is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified. The Fund's Board of Trustees is responsible for the organization and administration of the Fund.

(2) Description of the Fund, cont.

Membership in the Fund as of March 31, 1995 and 1994 was as follows:

	1995	1994
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	43,905	41,407
Active members:		
Vested	75,879	75,694
Nonvested	41,520	40,947
Total active members	117,399	116,641

Loans receivable:

The Fund 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 member's annuity savings account. Repayment of loan balances is deducted from payroll checks and bears an annual interest rate of 4%. Outstanding loans to a member who withdraws from the Fund prior to retirement are satisfied by applying the member's loan balance against the member's contributions. Upon retirement, termination or death, any outstanding loans are repaid from withholdings from the retiree's benefit checks.

Vesting and benefit provisions:

The vesting and benefit provisions are set by N.J.S.A. 18A:6C. The Fund provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of final average salary for each year of service credit, as defined. Final average salary equals the average salary 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 early retirement after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

The Fund provides specific medical benefits for members who retire after 25 years of qualified service, as defined, or under the disability provisions of the Fund.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

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 a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits (COLA) after 24 months of retirement.

Other:

According to the administrative code, all obligations of the Fund will be assumed by the State of New Jersey should the Fund terminate.

Information about the Fund, including vesting and benefit provisions, is contained in the "Teachers' Pension and Annuity Fund Member Handbook." Copies of this handbook are available from the State of New Jersey Division of Pensions and Benefits.

(3) Pension Benefit and Post-Retirement Medical Benefit Obligations

The following "pension benefit and post-retirement medical benefit obligations" are the actuarial present values of credited projected benefits. They are standardized disclosure measures representing the present value of 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 Fund discussed in note 4.

The benefit obligations were determined as part of the most recent annual actuarial valuations dated March 31, 1995 and 1994 (see note 1). The liabilities were determined as of March 31 and projected forward to June 30, allowing for increases in benefits and variations in the population during the three-month period.

The projected unfunded pension benefit and post-retirement medical benefit obligations as of June 30, 1995 and 1994 were as follows:

(3) Pension Benefit and Post-Retirement Medical Benefit Obligations, cont.

	1995			1994	
	Pension benefit obligation	Post- retirement medical benefit obligation		Pension benefit obligation	Post- retirement medical benefit obligation
	(In thousands)			(In thousands)	
Benefit obligations:			Benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 7,356,360	1,174,190	Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 6,327,180	822,090
Current employees:			Current employees:		
Accumulated employees' contributions with interest	3,142,540	-	Accumulated employees' contributions with interest	2,898,360	-
Employer-financed vested	8,001,930	1,402,530	Employer-financed vested	7,912,790	1,560,300
Employer-financed nonvested	389,720	89,520	Employer-financed nonvested	418,020	103,130
Total benefit obligations, including cost-of-living adjustments	18,890,550	2,666,240	Total benefit obligations, including cost-of-living adjustments	17,556,350	2,485,520
Net assets available for benefits at market-related value (market value of net assets available for benefit obligations amounts to \$17,630,610)	16,350,161	284,253	Net assets available for benefits at market-related value (market value of net assets available for benefit obligations amounts to \$15,113,668)	15,389,716	235,822
Unfunded benefit obligations	\$ 2,540,389	2,381,987	Unfunded benefit obligations	\$ 2,166,634	2,249,698

The above pension benefit and post-retirement medical benefit obligations were calculated based on the actuarial assumptions of (a) an interest rate of 8.75% compounded annually; (b) salary increases ranging from 6.90% at age 25 to 4.65% at age 70 which includes inflation, merit and productivity; (c) assets stated at market-related value which recognizes 20% of the realized and unrealized appreciation in value each year; (d) a 2.4% increase in cost-of-living benefit provisions; (e) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary; and (f) a medical trend assumption of 5%.

(4) Contribution Policy

The contribution policy is set by N.J.S.A. 18:66 and Chapter 62, P.L. of 1994 and requires contributions by active members and the State of New Jersey. Members contribute at a uniform rate of 5%, with a 1% contribution offset, which expired at the end of fiscal year 1996, for those members whose full rate of contribution prior to July 1, 1994, was less than 6%. Contribution requirements of the State of New Jersey are determined annually on the basis of an actuarial valuation of the asset and liabilities of the pension plan.

(4) Contribution Policy, cont.

In accordance with the provisions of Chapter 385, P.L. 1987, Chapter 41, P.L. 1993, and Chapter 62, P.L. 1994, contributions of the State of New Jersey consist of a normal contribution and an accrued liability contribution, if applicable, as determined by a qualified actuary. The Fund's actuary uses the projected unit credit method of funding. The normal contribution includes cost-of-living adjustments, costs for medical premiums after retirement for qualified retirees and an amount that is required to fund noncontributory death benefits. As of March 31, 1995 and 1994, normal costs were determined to be \$239,460,000 and \$196,645,000, respectively. The accrued liability funding costs for active COLA benefits were \$21,971,000 and \$19,690,000, at March 31, 1995 and 1994, respectively. As discussed in note 3, liabilities were determined as of March 31 and projected forward to June 30, allowing for increases in benefits and variations in the population during the three-month period. The State of New Jersey contribution for the year ended June 30, 1996 and 1995 was based on the 1994 and revised 1993 actuarial valuations, respectively.

The Fund's unfunded accrued liabilities were determined to be \$1,690,102,865 and \$1,173,761,427 as of March 31, 1995 and 1994, respectively. At March 31, 1995, basic benefits are in a surplus position to the extent of \$289,807,904, active COLA benefits have an unfunded accrued liability of \$1,757,564,183 and there is an additional accrued liability of \$222,346,586 attributable to the early retirement incentive programs. At March 31, 1994, basic benefits have a surplus balance of \$671,123,458, active COLA benefits have an unfunded liability of \$1,728,031,386, and the early retirement incentive program accrued liabilities are \$116,853,499.

The amortization period for the unfunded accrued liabilities was initially set at 40 years beginning July 1, 1992.

Total pension contributions recognized for the years ended June 30, 1996 and 1995 were approximately \$481,184,000 (\$194,882,000 from employers and \$286,302,000 from employees, or 3.47% and 5.10%, respectively of 1996 annual covered payroll) and approximately \$317,323,000 (\$72,678,000 from employers and \$244,645,000 from employees, or 1.34% and 4.52%, respectively of 1995 annual covered payroll), of which approximately \$189,418,000 in 1996 and \$61,249,000 in 1995 represented the actuarially determined employer contribution amount. The 1996 and 1995 State of New Jersey contributions are based on the 1995 and 1994 actuarial valuations.

(5) Description of Fund Balances

Members' Annuity Savings Fund and Accumulative Interest:

The Members' Annuity Savings Fund and Accumulative Interest (ASF) is credited with all contributions made by active members of the Fund. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer, which was 8.75% for the years ended June 30, 1996 and 1995. After three years of participation, withdrawing members receive interest at an annual rate of 2% of their accumulative contributions with the remaining portion of interest forfeited.

Upon retirement of a member, the accumulated contributions plus interest 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 plus applicable interest are paid from the Members' Annuity Savings Fund.

Contingent Reserve Fund:

The Contingent Reserve Fund is credited with the contributions of the State of New Jersey. Additionally, interest earnings of the Fund, after crediting the ASF and 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 are transferred to the Retirement Reserve Fund for subsequent benefit payments.

Each year, the amounts necessary, as determined by the actuary, for the payment of retirement benefits are transferred from the Contingent Reserve Fund to the Retirement Reserve Fund. In addition, payments for noncontributory cash death benefits and post-retirement medical benefits are made from the Contingent Reserve Fund.

Chapter 385, P.L. 1987 and Chapter 384, P.L. 1987 provide that pension adjustment (cost-of-living) benefits and health care benefits for qualified retirees shall be funded through the Contingent Reserve Fund.

Retirement Reserve Fund:

The Retirement Reserve Fund is the account from which all retirement benefits are paid, including cost-of-living benefits, which are funded through the Contingent Reserve Fund. Upon retirement of a member, accumulated

(5) Description of Fund Balances, cont.

contributions, together with accumulated regular interest, are transferred to the Retirement Reserve Fund from the ASF. Any reserves needed for the additional retirement benefits are transferred from the Contingent Reserve Fund. Interest as determined by the State Treasurer (8.75% in 1996 and 1995) is credited annually 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 Contingent Reserve Fund upon advice of the actuary.

Special Reserve Fund:

The Special Reserve Fund is the fund to which excess interest earnings and net realized gains or losses from the sale of securities are transferred. The maximum limit on the accumulation of this account is 1% of the book value of the investments of the Fund excluding investments allocated to the Contributory Group Insurance Premium Fund, which amounted to \$59,913,298 and \$52,534,000 in the Cash Management Fund at June 30, 1996 and 1995, respectively. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund:

The Contributory Group Insurance Premium Fund represents the accumulation of member contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carrier.

Members are required by statute to participate in the contributory group insurance plan in the first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for this coverage is 4/10 of 1% of salary, as defined.

(6) Investments

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

GASB Statement No. 3 requires disclosure of the level of risk assumed by the Fund. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. As of June 30, 1996 and 1995, all investments held by the Fund 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 Fund. 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 Fund. The custodian banks, as agents for the Fund, maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Fund.

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

The following presents a summary of investment securities as of June 30, 1996 and 1995 and the approximate market values.

(Continued on page 14)

(6) Investments, cont.

	1996		1995	
	Book Value	Market Value	Book Value	Market Value
	(In thousands)		(In thousands)	
Bonds:				
U.S. and municipal government bonds	\$ 29,450	29,895	29,005	29,821
Telephone bonds	1,000	1,004	4,000	4,000
Gas, electric and water bonds	1,000	992	4,827	4,794
Other	179,752	182,957	209,654	215,921
Subtotal	211,202	214,848	247,486	254,536
Common Pension Fund A	5,647,480*	9,596,296	5,421,738*	8,900,856
Common Pension Fund B	4,712,661*	4,786,811	4,356,582*	4,592,446
Common Pension Fund D	2,421,291*	3,109,268	1,649,105*	2,032,537
Cash Management Fund	790,219*	790,219	773,863*	773,863
Mortgages	614,201	612,651	476,112	484,876
Total	\$ 14,397,054	19,110,093	12,924,886	17,039,114

*Investments that represent 5% or more of the Fund's net assets.

7) Income Tax Status

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the Fund is a qualified plan as described in Section 401(a) of the Internal Revenue Code.

In the opinion of the State of New Jersey Division of Pensions and Benefits, the Fund has operated within the terms of the Fund and remains qualified under the applicable provisions of the Internal Revenue Code.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND
Supplementary Information
Analysis of Funding Progress
Years 1987 through 1996
(In Millions)

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

Pension Benefit Obligation

Plan fiscal year	Net assets available for benefits	Benefit obligation	Percentage funded	Unfunded benefit obligation	Annual covered payroll	Unfunded benefit obligation as a percentage of covered payroll
1987	\$ 5,840	6,831	85.5%	\$ 991	3,012	32.9%
1988	7,145	10,523	67.9	3,378	3,242	104.2
1989	8,176	11,655	70.1	3,479	3,537	98.4
1990	8,967	12,134	73.9	3,167	3,857	82.1
1991	11,594	12,792	90.6	1,198	4,172	28.7
1992	12,732	14,172	89.8	1,440	4,494	32.0
1993	13,706	14,721	93.1	1,015	4,809	21.1
1994	14,548	16,601	87.6	2,053	5,103	40.2
1995	15,390	17,556	87.7	2,166	5,411	40.0
1996	16,350	18,891	86.6	2,540	5,610	45.3

Post-retirement Medical Premiums Obligation

Plan fiscal year	Net assets available for benefits	Benefit obligation	Percentage funded	Unfunded benefit obligation
1988	\$ -	2,306	- %	\$ 2,306
1989	-	2,201	-	2,201
1990	54	3,334	2.0	3,280
1991	49	2,747	1.8	2,698
1992	88	3,240	2.7	3,152
1993	142	1,947	7.3	1,805
1994	301	2,296	13.1	1,995
1995	236	2,486	9.5	2,250
1996	284	2,666	10.7	2,382

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Supplementary Information

Analysis of Funding Progress, Continued

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

Notes: Beginning in 1988, the pension benefit obligations reflect the impact of funding cost-of-living adjustments and, accordingly, amounts related to fiscal 1989 have been revalued. Also in 1988, the Fund assumed the obligation for post-retirement medical premiums. Beginning in 1991, assets are valued at market-related value, which recognizes realized and unrealized gains and losses in excess of book value, expected over a five-year period, rather than the Plan's actual net assets (fund balance) as shown in the Plan's balance sheets.

The unfunded benefit obligation in 1993 reflects the change in the actuarial funding method from the Entry Age Normal Method with a frozen initial liability to the Projected Unit Credit Method, as well as other changes required by 1994 pension reform legislation. Annual covered payroll is an estimate based upon annualizing one quarter's actual payroll.

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND
Supplementary Information
Revenues by Source and Expenses by Type
Years 1987 through 1996**

Revenues by Source

Plan fiscal year	Members' contributions	Employer contributions	Percentage of annual covered compensation	Investment and other revenue	Total
1987	\$ 138,442,900	321,560,276	10.68 %	\$ 806,182,542	1,266,185,718
1988	147,641,522	359,773,275	11.10	726,554,712	1,233,969,509
1989	161,569,423	469,268,698	14.12	733,455,551	1,364,293,672
1990	175,061,392	524,372,216	13.60	773,167,825	1,472,601,433
1991	188,855,368	578,285,349	13.86	798,346,528	1,565,487,245
1992	203,538,987	288,482,845	6.42	855,463,677	1,347,485,509
1993	218,813,591	347,312,560	7.22	916,315,436	1,482,441,587
1994	254,499,793	138,315,930	2.71	1,197,624,515	1,590,440,238
1995	244,645,241	72,677,434	1.34	1,407,298,293	1,724,620,968
1996	286,302,170	194,881,707	3.47	2,091,708,844	2,572,892,721

Expenses by Type

Plan fiscal year	Benefits		Withdrawals, administrative and other expenses	Transfers to other retirement systems	Total
	Retirement	Other*			
1987	\$ 238,230,268	96,559,033	28,905,920	658,505	364,353,726
1988	263,410,016	128,521,940	31,047,415	686,187	423,665,558
1989	291,686,199	103,154,109	67,350,406	1,550,441	463,741,155
1990	321,810,038	156,673,510	17,363,422	2,065,428	497,912,398
1991	358,246,434	181,633,918	19,050,632	2,787,264	561,718,248
1992	401,439,311	126,251,000	138,086,588	1,353,792	667,130,691
1993	481,991,475	235,109,628	15,898,358	2,333,471	735,332,932
1994	529,281,440	253,991,021	21,676,214	1,960,869	806,909,544
1995	620,541,521	255,336,642	18,808,319	906,808	895,593,290
1996	677,938,451	269,048,008	26,250,876	1,464,630	974,701,965

*Other benefits includes cost-of-living adjustments and medical benefits for certain eligible retirees beginning in 1986 and 1988, respectively.

Contributions were made in accordance with actuarially determined contribution requirements.