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TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY



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ANNUAL REPORT

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

**BOARD OF TRUSTEES
as of June 30, 1995**

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

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 1995 Annual Report in accordance with the provisions of N.J.S.A. 18A:66-59.

Respectfully Submitted,

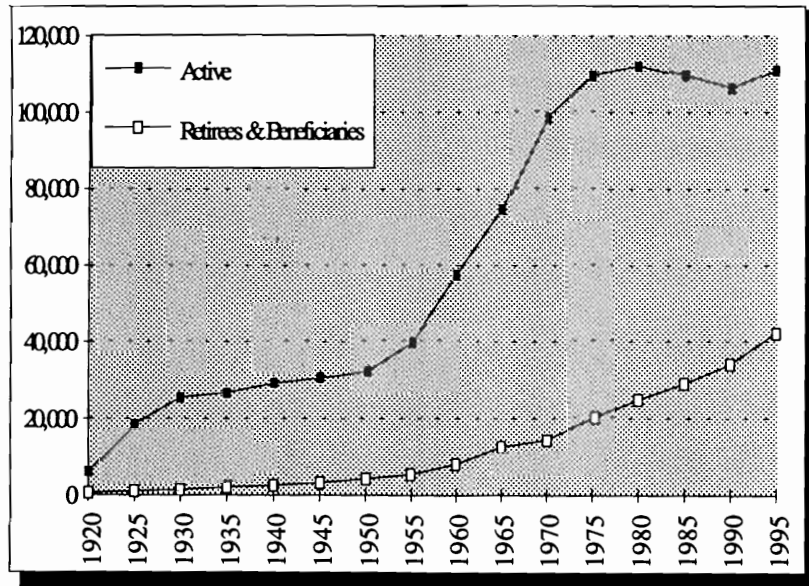
HARRY BALDWIN
Chairperson

SIGNIFICANT LEGISLATION

There was no significant legislation governing the Teachers' Pension and Annuity Fund during Fiscal Year 1995.

- As of June 30, 1995, the active contributing membership of the system totaled 110,844*.
- There were 42,174 retirees and beneficiaries receiving annual pensions totaling \$745,200,828. (This includes benefits paid under the provisions of the Pension Adjustment Act).
- Beneficiaries of 1,278 deceased active and retired members received lump sum death benefits in the amount of \$35,820,526.
- The system's assets totaled \$13,591,048,841 at the close of fiscal year 1995.

* Total inactive membership as of June 30, 1995 was 9,456.



During fiscal year 1995, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Teacher's Pensions and Annuity Fund of New Jersey.

- **WITHDRAWAL** - 1,551 members withdrew from the system.
- **LOANS** - 21,866 members applied for and received loans on their accounts totaling \$157,996,081.
- **RETIREMENT** - 3,691 members retired under the following retirement types and options:

<u>TYPES OF RETIREMENT</u>		<u>OPTION SELECTION</u>	
Service	1,561	Maximum	1,605
Early	1,355	Option 1	683
Deferred	97	Option 2	635
Ordinary Disability	111	Option 3	719
Accidental Disability	3	Option 4	49
Veteran	564	TOTAL	3,691
TOTAL	3,691		

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

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.

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, 1995 and 1994, 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.

August 31, 1995

/s/ KPMG Peat Marwick

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 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, 1995 and 1994, and its revenues, expenses and changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

As discussed in notes 2, 3, and 4, the State of New Jersey enacted legislation during the year ended June 30, 1994 which requires various changes in the actuarial funding policy and which significantly impacted the State of New Jersey Teachers' Pension and Annuity Fund's pension benefit obligation and actuarial funding requirements. The retroactive changes affected the 1995 recognized employer and employee contributions in the financial statements and the disclosures regarding pension benefit obligations and post-retirement medical benefit obligations. As discussed in note 7, certain unions have challenged the amendments to the pension laws enacted during the year ended June 30, 1994 (Chapter 62, P.L. 1994).

Teachers' Pension and Annuity Fund of New Jersey
Balance Sheets
June 30, 1995 and 1994

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<u>Assets</u>	<u>1995</u>	<u>1994</u>
Investments, at cost:		
Bonds (market value of \$254,536,239 in 1995 and \$291,600,335 in 1994) \$	247,486,158	295,573,323
Common Pension Fund A (market value of \$8,900,856,432 in 1995 and \$7,780,119,003 in 1994)	5,421,738,158	5,288,724,329
Common Pension Fund B (market value of \$4,592,446,370 in 1995 and \$4,426,478,075 in 1994)	4,356,582,409	4,431,008,515
Common Pension Fund D (market value of \$2,032,536,842 in 1995 and \$1,551,066,839 in 1994)	1,649,105,314	1,387,899,494
Cash Management Fund (market value of \$773,862,852 in 1995 and \$237,315,429 in 1994)	773,862,852	237,315,429
Mortgages (market value of \$484,875,932 in 1995 and \$542,262,108 in 1994)	<u>476,111,844</u>	<u>563,908,651</u>
Total investments	<u>12,924,886,735</u>	<u>12,204,429,741</u>
Receivables:		
Contributions:		
Members	62,570,208	62,790,582
Employer	14,092,768	14,499,604
Investments:		
Accrued interest	377,665,012	274,298,569
Dividends	53,753,590	52,524,451
Member loans	157,996,081	148,443,887
Other	<u>84,448</u>	<u>334,857</u>
Total receivables	<u>666,162,107</u>	<u>552,891,950</u>
Total assets	<u>\$ 13,591,048,842</u>	<u>12,757,321,691</u>

<u>Liabilities and Fund Balances</u>	<u>1995</u>	<u>1994</u>
Liabilities:		
Retirement benefits payable	\$ 63,536,895	55,349,684
Death benefits payable	1,255,993	1,759,230
Cash overdraft	4,455,247	4,775,637
Accounts payable and accrued expenses	<u>4,603,320</u>	<u>7,267,431</u>
Total liabilities	<u>73,851,455</u>	<u>69,151,982</u>
Fund balances:		
Members' Annuity Savings Fund and Accumulative Interest	3,142,541,013	2,898,358,435
Contingent Reserve Fund	3,118,679,510	3,086,895,192
Retirement Reserve Fund	7,069,544,130	6,528,768,289
Special Reserve Fund	128,699,854	121,518,962
Contributory Group Insurance Premium Fund	<u>57,732,880</u>	<u>52,628,831</u>
Total fund balances	<u>13,517,197,387</u>	<u>12,688,169,709</u>
Total liabilities and fund balances	<u>\$ 13,591,048,842</u>	<u>12,757,321,691</u>

See accompanying notes to financial statements.

Teachers' Pension and Annuity Fund of New Jersey
Statement of Revenues, Expenses and Changes in Fund Balances
For the year ended June 30, 1995

	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	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)	977,964,309	-	-	-	-
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

Teachers' Pension and Annuity Fund of New Jersey
Statements of Revenues, Expenses and Changes in Fund Balances
For the year ended June 30, 1994

	Members' 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	\$ 234,798,154	-	-	-	19,701,639	-	254,499,793
Employers	-	138,315,930	-	-	-	-	138,315,930
Investment revenue	211,774,720	413,496,424	531,623,362	38,829,464	1,883,433	-	1,197,607,403
Other	-	-	-	-	-	17,113	17,113
Total revenues	446,572,874	551,812,354	531,623,362	38,829,464	21,585,072	17,113	1,590,440,239
Expenses:							
Benefit payments	-	-	529,281,440	-	-	-	529,281,440
Cost-of-living adjustments	-	-	120,052,718	-	-	-	120,052,718
Withdrawals	13,379,698	-	-	-	-	-	13,379,698
Noncontributory group insurance death benefits	-	20,259,729	-	-	-	-	20,259,729
Administrative expenses	-	9,105,583	-	-	-	-	9,105,583
Health benefit premiums and other	-	93,096,535	-	-	21,716,728	17,113	114,830,376
Total expenses	13,379,698	122,461,847	649,334,158	-	21,716,728	17,113	806,909,544
Excess (deficiency) of revenues over expenses	433,193,176	429,350,507	(117,710,796)	38,829,464	(131,656)	-	783,530,695
Transfers among funds:							
Retirements	(119,767,814)	(453,329,346)	573,097,160	-	-	-	-
Others	501,939	(601,307,771)	600,805,832	-	-	-	-
Fund balances at beginning of year	2,584,431,134	3,712,181,802	5,472,576,093	82,689,498	52,760,487	-	11,904,639,014
Fund balances at end of year	\$ 2,898,358,435	3,086,895,192	6,528,768,289	121,518,962	52,628,831	-	12,688,169,709

See accompanying notes to financial statements

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

(1) Summary of Significant Accounting Policies

Actuarial valuations:

The benefit obligations were determined as part of the most recent annual actuarial valuations dated March 31, 1994 and 1993 (see note 2). 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, 1995 and 1994 was based on the revised 1993 and 1992 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.

**Teachers' Pension and Annuity Fund of New Jersey
Notes to Financial Statements**

**Teachers' Pension and Annuity Fund of New Jersey
Notes to Financial Statements**

(2) Description of the Fund, cont.

Membership in the Fund as of March 31, 1994 and 1993 was as follows:

	<u>1994</u>	<u>1993</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	41,407	40,355
Active members:		
Vested	75,694	74,106
Nonvested	<u>40,947</u>	<u>41,207</u>
Total active members	<u>116,641</u>	<u>115,313</u>

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 members' annuity savings account. Repayment of loan balances is deducted from payroll checks and bears an annual interest rate of 4%. Outstanding loans to members who withdraw 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.

(2) Description of the Fund, cont.

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.

Pension reform legislation was passed in 1994 which required various changes in the actuarial funding policy. In accordance with this legislation, the following changes were implemented in 1994: (1) the valuation funding method was changed from the Entry Age Normal Method with a frozen initial liability to the Projected Unit Credit Method; (2) funding of post retirement medical premiums reverted back to a pay-as-you-go basis with an additional contribution beginning with the 1996 fiscal year which will increase the medical reserve by 1/2% of 1% of payroll; (3) the amortization period for the unfunded accrued liabilities was extended from 30 to 40 years beginning July 1, 1992; (4) the assumed rate for cost-of-living adjustment (COLA) was reduced from 3.0% to 2.4%; (5) the assumed rate of salary growth was reduced to 5.95% with no merit salary scale; (6) the phase-in schedule for recognizing active member COLA benefits was modified as follows: 20% for the 1992 valuation and 23.3% for the 1993 valuation with increases of 2.33% thereafter until 100% funding is reached in 2026. Under the previous schedule, the phase-in percentages were scheduled to increase to 34.5% in 1992 and 40.5% in 1993 with 6% per year increases thereafter until 100.0% was reached in 2005; and (7) the phase-in period for recognizing the latest Fund experience changes was changed from two to five years.

(2) Description of the Fund, cont.

Notes 3 and 4 describe the impact of these changes on the system's pension benefit obligations, post-retirement medical benefit obligations and actuarial funding requirements.

The pension reform legislation also contained a provision which allows members to waive their group life insurance coverage in excess of \$50,000. Finally, the legislation required the elimination of the 2% offset in employee contributions up to the social security wage limit and the establishment of a 5% uniform contribution rate for all members by July 1, 1996.

Early retirement legislation was enacted in 1994 affecting local boards of education, educational services commissions and jointure commissions who passed an Early Retirement Incentive resolution with the State of New Jersey Division of Pensions and Benefits by December 31, 1993. This affected employees who applied for retirement between February 1, 1994 and July 1, 1994 and who met the aforementioned age and service requirements. The adopting entities would assume the increased cost for the early retirement as it affects their districts.

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.

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

The benefit obligations were determined as part of the most recent annual actuarial valuations dated March 31, 1994 and 1993 (see note 2). 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, 1994 and 1993 were as follows:

	<u>Pension benefit obligation</u>	<u>Post- retirement medical benefit obligation</u>
	(In thousands)	
	<u>1994</u>	
Benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	6,327,180	822,090
Current employees:		
Accumulated employees' contributions with interest	2,898,360	-
Employer-financed vested	7,912,790	1,560,300
Employer-financed nonvested	<u>418,020</u>	<u>103,130</u>
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 \$15,113,668)	<u>15,389,716</u>	<u>235,822</u>
Unfunded benefit obligations	\$ 2,166,634	2,249,698

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

	1993	
Benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 5,910,650	804,080
Current employees:		
Accumulated employees' contributions with interest	2,584,430	-
Employer-financed vested	7,643,870	1,392,200
Employer-financed nonvested	462,340	99,980
Total benefit obligations, including cost-of-living adjustments	16,601,290	2,296,260
Net assets available for benefits (valuation assets) (market value of net assets available for benefit obligations amounts to \$15,777,689)	14,548,096	301,361
Unfunded benefit obligations	\$ 2,053,194	1,994,899

The above pension benefit and post-retirement medical benefit obligations were calculated based on the actuarial assumptions of (a) a discount 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%.

The unfunded pension benefit obligation decreased by \$2,254,330,000 as of July 1, 1992 as a result of the actuarial funding changes referred to in note 2.

(4) Contribution Policy

The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and the State of New Jersey. Member contribution rates range from 5.05% to 9.09% of salary based on the member's age at date of enrollment. Once members are assigned a rate, it is not normally adjusted.

(4) Contribution Policy, cont.

In accordance with the 1994 pension reform legislation referred to in Note 2, the age-based contribution rates and the 2% offset up to the social security wage base limit have been eliminated and a uniform contribution rate of 5% has been established for all members. This change is being phased in over a two-year period as follows: Beginning July 1, 1994, all new members were assigned a 5% contribution rate. For those enrolled prior to this date, the rate change to 5% was effective July 1, 1995, with a 1% offset for those employees whose previous full contribution rate was less than 6%. The 1% contribution offset will be eliminated as of July 1, 1996, and all members will contribute at 5%.

In accordance with the provisions of Chapter 385, P.L. 1987, Chapter 41, P.L. 1992, 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, 1994 and 1993, normal costs were determined to be \$196,645,000 and \$75,549,000, respectively. The accrued liability funding costs for active COLA benefits were \$19,690,000 and \$17,546,000, at March 31, 1994 and 1993, 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, 1995 and 1994 was based on the revised 1993 and 1992 actuarial valuations, respectively.

The System's unfunded accrued liabilities were redetermined as of March 31, 1992 based on the requirements set forth in the 1994 pension reform legislation. Under the revised funding policy, unfunded accrued liabilities decreased by \$4,409,414,257 to \$93,575,208 at March 31, 1992.

As of March 31, 1994 and 1993, basic benefits are in a surplus position by \$671,123,458 and \$687,652,767, respectively, while COLA benefits have an unfunded accrued liability of \$1,728,031,386 and \$1,768,564,742, respectively. Thus, there is a net unfunded accrued liability of \$1,056,907,928 as of March 31, 1994 and a net unfunded liability of \$1,080,091,975 as of March 31, 1993.

(4) Contribution Policy, cont.

There is an additional unfunded liability of \$116,853,499 and \$127,711,627 as of March 31, 1994 and 1993, respectively, which is attributable to the early retirement program.

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

Total pension contributions recognized for the years ended June 30, 1995 and 1994 were approximately \$296,643,000 and \$373,114,000, respectively (\$72,678,000 in 1995 and \$138,316,000 in 1994 from the State of New Jersey and \$223,965,000 in 1995 and \$234,798,000 in 1994 from members, or 1.3% and 4.1%, respectively, in 1995 and 2.7% and 4.6% in 1994, respectively, of annual covered compensation), of which \$61,249,000 in 1995 and \$46,792,000 in 1994 represented the actuarially determined employer contribution amount. The 1995 and 1994 State of New Jersey contributions are based on the 1994 and revised 1993 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, 1995 and 1994. 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.

(5) Description of Fund Balances, cont.

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 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 1995 and 1994) 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 \$54,901,339 and \$52,534,000 in the Cash Management Fund at June 30, 1995 and 1994, respectively. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Teachers' Pension and Annuity Fund of New Jersey
Notes to Financial Statements

Teachers' Pension and Annuity Fund of New Jersey
Notes to Financial Statements

(5) Description of Fund Balances, cont.

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 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 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 investment 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. Category 2 includes uninsured and unregistered investments for which the securities are held by the trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. As of June 30, 1995 and 1994, 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

(6) Investments, cont.

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, 1995 and 1994 and the approximate market values.

	Book value	Market value
	(In thousands)	
	<u>1995</u>	
Bonds:		
U.S. and municipal government bonds	\$ 29,005	29,821
Telephone bonds	4,000	4,000
Gas, electric and water bonds	4,827	4,794
Other	<u>209,654</u>	<u>215,921</u>
	247,486	254,536
Common Pension Fund A	5,421,738*	8,900,856
Common Pension Fund B	4,356,582*	4,592,446
Common Pension Fund D	1,649,105*	2,032,537
State of New Jersey Cash Management Fund	773,863*	773,863
Mortgages	<u>476,112</u>	<u>484,876</u>
Total	\$ 12,924,886	<u>17,039,114</u>

Teachers' Pension and Annuity Fund of New Jersey
Notes to Financial Statements

Teachers' Pension and Annuity Fund of New Jersey
Notes to Financial Statements

(6) Investments, cont.

	<u>1994</u>	
Bonds:		
U.S. and municipal government bonds	\$ 63,132	61,679
Telephone bonds	4,000	3,941
Gas, electric and water bonds	6,838	6,720
Other	<u>221,603</u>	<u>219,260</u>
	295,573	291,600
Common Pension Fund A	5,288,724*	7,780,119
Common Pension Fund B	4,431,009*	4,426,478
Common Pension Fund D	1,387,899*	1,551,067
State of New Jersey Cash Management Fund	237,315	237,315
Mortgages	<u>563,909</u>	<u>542,262</u>
Total	\$ 12,204,429	14,828,841

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

(7) Litigation

Subsequent to the enactment of the 1994 pension revaluation legislation (Chapter 62, P.L. 1994), which is discussed in notes 2, 3 and 4, various labor unions filed a complaint on October 17, 1994 concerning funding of the Teachers' Pension and Annuity Fund. The complaint alleges that certain provisions of Chapter 62, P.L. 1994 violate the contract, due process clauses of the United States and New Jersey Constitutions, and that implementation of Chapter 62, P.L. 1994 will result in a breach of trust and fiduciary duties to participants of TPAF. The complaint also alleges that the changes under Chapter 62, P.L. 1994 resulted in lower employer contributions in order to reduce a general budget deficit. Plaintiffs are seeking to permanently enjoin the defendants from administering, enforcing, and implementing Chapter 62, P.L. 1994. An adverse determination against the State would have a significant impact upon the Fiscal Year 1996 budget. The State of New Jersey intends to defend the action vigorously. The State of New Jersey is unable to determine the outcome of the action at this time.

(8) 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.

Schedule 1

**Teachers' Pension and Annuity Fund of New Jersey
Required Supplementary Information
Analysis of Funding Progress
Years 1986 through 1995
(In Millions)**

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

Pension Benefit Obligation

Plan 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
1986 \$	5,033	5,175	97.3%	\$ 142	2,764	5.1%
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
	==	==	==	==	==	==

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
	==	==	==	==

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.

Note - 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 changes as a result of legislation enacted in 1994 as discussed in notes 2, 3 and 4.

**Teachers' Pension and Annuity Fund of New Jersey
Required Supplementary Information
Revenues by Source and Expenses by Type
Years 1985 through 1995**

Plan fiscal year	Revenues by Source					Total
	Members' contri- butions	Employer contri- butions	Percent- age of annual covered compen- sation	Investment and other revenue		
1985	\$ 98,561,518	280,652,017	10.97%	\$ 397,087,025		776,300,560
1986	121,267,549	299,499,600	10.84	554,341,018		975,108,167
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

Plan fiscal year	Expenses by Type					Total
	Benefits Retirement	Other*	Withdrawals, adminis- trative and other expenses	Transfers to other retire- ment systems		
1985	\$ 196,536,957	12,850,904	10,710,202	44,005		220,142,068
1986	215,598,008	95,313,233	22,323,092	56,592		333,290,925
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

*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.