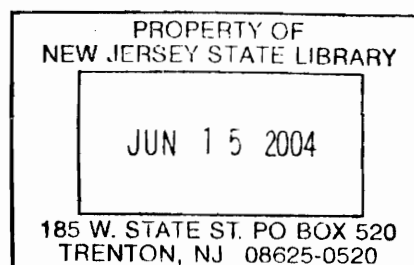




TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

1999 ANNUAL REPORT



DEPARTMENT OF
THE TREASURY

Roland M. Machold,
State Treasurer

DIVISION OF PENSIONS
AND BENEFITS

Margaret M. McMahon, *Director*



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

TEACHERS' PENSION
AND ANNUITY FUND
OF NEW JERSEY

BOARD
OF TRUSTEES
as of June 30, 1999

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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 1999 Annual Report
in accordance with the provisions of N.J.S.A. 18A:66-59.

Respectfully submitted,

A handwritten signature in cursive script, reading "Harry N. Baldwin".

HARRY BALDWIN
Chairperson

SIGNIFICANT LEGISLATION

Chapter 132, Public Law of 1999

This bill provides that any member of the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), State Police Retirement System (SPRS) and Judicial Retirement System (JRS) who retires with an outstanding loan will repay the loan through deductions from the retirement benefit payments in the same monthly amount that was deducted from the member's compensation immediately before retirement until the balance of the loan together with the interest is repaid. At present, only members retiring on a disability pension or for a medical illness or disability can repay loans in this fashion.

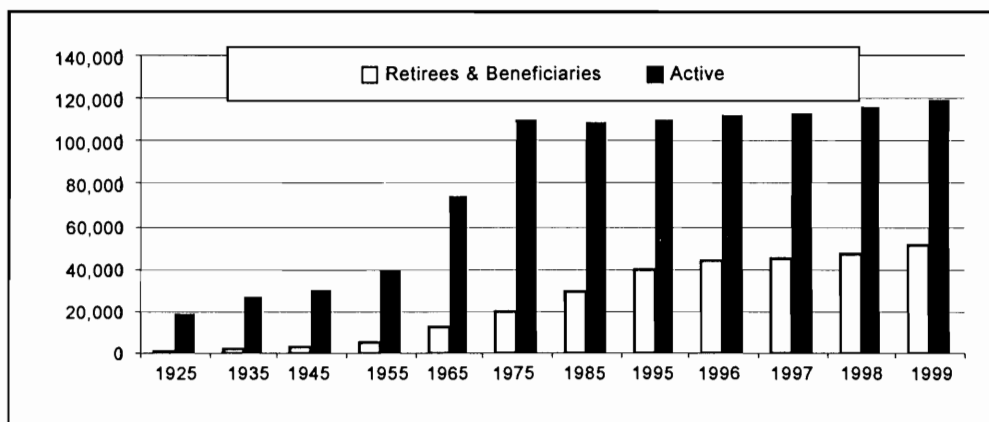
If the retiree dies before the loan with interest is repaid, the remaining loan balance will be repaid from the proceeds of any other benefits payable on the account of the retiree either in the form of monthly payments due to the beneficiaries or in the form of lump sum payments payable for the pension or group life insurance.

This law was approved June 25, 1999.

MEMBERSHIP

- As of June 30, 1999, the active membership of the system totaled 118,626*. This includes 478 State employees and 118,148 employees from 652 participating local employers.
- There were 50,733 retirees and beneficiaries receiving annual pensions totaling \$1,052,349,490. (This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act).
- Beneficiaries of 140 active and 1,674 retired members received lump sum death benefits in the amount of \$46,345,959.
- The system's assets totaled \$33,010,926,285 at the close of the fiscal year 1999.

**Total Inactive Membership as of June 30, 1999 was 9,807.*



MEMBERSHIP ACTIVITY

During fiscal year 1999, 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** - 29,702 loans were issued to members. The total loans receivable as of June 30, 1999 is \$221,635,848.
- **RETIREMENT** - 3,543 members retired under the following retirement types:

<u>TYPE OF RETIREMENT</u>		<u>OPTION SELECTION</u>	
Service	1,416	Maximum	1,573
Early	1,552	Option 1	543
Deferred	140	Option 2	611
Ordinary Disability	184	Option 3	775
Accidental Disability	12	Option 4	41
Veteran	239	TOTAL	3,543
TOTAL	3,543		

KPMG LLP
Princeton Pike Corporate Center
P.O. Box 7348
Princeton, NJ 08543-7348

INDEPENDENT AUDITORS' REPORT

Board of Trustees
State of New Jersey

Teachers' Pension and Annuity Fund:

We have audited the accompanying statements of plan net assets of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1999 and 1998, and the related statements of changes in plan net assets 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 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 plan net assets of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1999 and 1998, and the changes in its plan net assets for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information listed on page 16 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Division is or will become year 2000 compliant, that the Division's 2000 remediation efforts will be successful in whole or in part, or that parties with which the Division does business are or will become year 2000 compliant.

The supplementary information included in the schedule of funding progress and schedule of employer contributions are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

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

September 10, 1999

KPMG LLP

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Plan Net Assets

June 30, 1999 and 1998

	1999			1998		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Assets:						
Investments, at fair value:						
Cash Management Fund	\$ 1,469,397,088	262,353,192	1,731,750,280	1,099,036,979	251,406,132	1,350,443,111
Bonds	124,406,209	—	124,406,209	183,785,321	—	183,785,321
Common Pension Fund A	16,257,412,125	—	16,257,412,125	14,186,719,269	—	14,186,719,269
Common Pension Fund B	6,794,716,164	—	6,794,716,164	6,195,382,819	—	6,195,382,819
Common Pension Fund D	6,295,223,375	—	6,295,223,375	5,837,854,077	—	5,837,854,077
Mortgages	1,101,716,277	—	1,101,716,277	727,974,687	—	727,974,687
Total investments	32,042,871,238	262,353,192	32,305,224,430	28,230,753,152	251,406,132	28,482,159,284
Receivables:						
Contributions:						
Members	68,779,122	—	68,779,122	62,961,837	—	62,961,837
Employers	253,248,042	—	253,248,042	263,925,561	—	263,925,561
Accrued interest and dividends	161,849,984	—	161,849,984	147,985,554	—	147,985,554
Members' loans	221,635,848	—	221,635,848	210,031,623	—	210,031,623
Other	188,859	—	188,859	2,354,626	—	2,354,626
Total receivables	705,701,855	—	705,701,855	687,259,201	—	687,259,201
Total assets	32,748,573,093	262,353,192	33,010,926,285	28,918,012,353	251,406,132	29,169,418,485
Liabilities:						
Accounts payable and accrued expenses	68,230,334	—	68,230,334	7,372,544	—	7,372,544
Retirement benefits payable	89,005,362	—	89,005,362	81,605,467	—	81,605,467
Death benefits payable	1,733,097	—	1,733,097	1,667,872	—	1,667,872
Cash overdraft	4,147,681	—	4,147,681	1,054,841	—	1,054,841
Total liabilities	163,116,474	—	163,116,474	91,700,724	—	91,700,724
Net assets held in trust for pension and post-retirement health benefits	\$ 32,585,456,619	262,353,192	32,847,809,811	28,826,311,629	251,406,132	29,077,717,761
See Schedule of Funding Progress on page 13.						

See accompanying notes to financial statements.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Changes in Plan Net Assets
Years ended June 30, 1999 and 1998

	1999			1998		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Revenues and additions:						
Contributions:						
Members	\$ 343,423,617	—	343,423,617	340,170,481	—	340,170,481
Employers	260,437,960	115,094,203	375,532,163	2,316,858	99,308,910	101,625,768
Other	2,170	—	2,170	4,155	—	4,155
Total contributions	603,863,747	115,094,203	718,957,950	342,491,494	99,308,910	441,800,404
Investment income:						
Net appreciation in fair value of investments	3,356,564,234	—	3,356,564,234	4,186,226,925	—	4,186,226,925
Interest	734,722,880	21,998,036	756,720,916	708,212,958	20,131,896	728,344,854
Dividends	194,321,558	—	194,321,558	195,450,546	—	195,450,546
	4,285,608,672	21,998,036	4,307,606,708	5,089,890,429	20,131,896	5,110,022,325
Less investment expense	3,206,611	—	3,206,611	2,359,331	—	2,359,331
Net investment income	4,282,402,061	21,998,036	4,304,400,097	5,087,531,098	20,131,896	5,107,662,994
Total revenues and additions	4,886,265,808	137,092,239	5,023,358,047	5,430,022,592	119,440,806	5,549,463,398
Expenditures and deductions:						
Benefits	1,098,695,449	126,145,179	1,224,840,628	1,005,438,760	98,113,482	1,103,552,242
Refunds of Contributions	17,945,811	—	17,945,811	16,040,964	—	16,040,964
Administrative expenses	10,479,558	—	10,479,558	7,390,930	—	7,390,930
Total expenditures and deductions	1,127,120,818	126,145,179	1,253,265,997	1,028,870,654	98,113,482	1,126,984,136
Net increase	3,759,144,990	10,947,060	3,770,092,050	4,401,151,938	21,327,324	4,422,479,262
Net assets held in trust for pension and post- retirement health benefits:						
Beginning of year	28,826,311,629	251,406,132	29,077,717,761	24,425,159,691	230,078,808	24,655,238,499
End of year	\$ 32,585,456,619	262,353,192	32,847,809,811	28,826,311,629	251,406,132	29,077,717,761

See accompanying notes to financial statements.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 1999 and 1998

(1) Description of the Fund

The Teachers' Pension and Annuity Fund (the Fund) is a cost-sharing contributory defined benefit plan with a special funding situation 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, death, disability and medical benefits to certain qualified 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 primarily responsible for the administration of the Fund.

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

Vesting and benefit provisions

The vesting and benefit provisions are set by N.J.S.A. 18A:66. 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

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

Notes to Financial Statements, Continued

June 30, 1999 and 1998

(1) Description of the Fund, *Continued*

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.

Membership

Membership in the Fund consisted of the following at March 31:

	1998	
	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries currently receiving benefits and employees entitled to benefits but not yet receiving them	48,119	30,734
Active members:		
Vested	76,636	26,227
Nonvested	44,615	95,024
Total active members	121,251	121,251
Total	169,370	151,985
	1997	
	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries currently receiving benefits and employees entitled to benefits but not yet receiving them	46,690	29,087*
Active members:		
Vested	75,245	23,739
Nonvested	43,565	95,071
Total active members	118,810	118,810
Total	165,500	147,897

*As of June 30, 1997.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements, Continued

June 30, 1999 and 1998

(2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Fund are prepared on the accrual basis of accounting and conform to the provisions of Governmental Accounting Standards Board (GASB) Statements No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans" and No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered By Defined Benefit Pension Plans". Plan assets and liabilities are recorded at fair value. Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

Investment Valuation

Investments, including short-term investments (State of New Jersey Cash Management Funds), are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

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

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

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

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

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

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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements, Continued

June 30, 1999 and 1998

(2) Summary of Significant Accounting Policies, Continued

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 institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of 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, 1999 and 1998, all investments (other than mortgages which are not categorized) 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.

Member Loans

Members can borrow up to 50% of their accumulated member contributions. To obtain a loan, a member must have at least three years of service credit in the Fund. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4%. Members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any benefits or continuing their monthly loan repayment schedule into retirement.

Administrative Expenses

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund to the State of New Jersey, Department of the Treasury, and are included in the accompanying statements of changes in plan net assets.

(3) Contributions

The contribution policy is set by N.J.S.A. 18:66, Chapter 62, P.L. 1994 and Chapter 115, P.L. 1997, and requires contributions by active members and contributing employers (ERI-129). Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. From July 1, 1997 to December 31, 1997, the contribution rate was 5% of base salary. In accordance with Chapter 115, P.L. 1997, referred to below, the member rate was lowered to 4.5% effective January 1, 1998. Employers are required to contribute

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements, Continued

June 30, 1999 and 1998

(3) Contributions, Continued

at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits are funded on a pay-as-you-go basis plus an additional contribution that will ensure an increase in the Post-Retirement Medical Reserve Fund equal to 1/2 of 1% of the salary of active employees.

Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of excess valuation assets to offset the required normal contributions of the State of New Jersey. Through FY 2002, excess assets may be used to the extent possible to offset normal contributions. Thereafter, a certain percentage of available excess assets may be used as specified in the legislation. Chapter 115 also provided for a reduction in the employee contribution rate in calendar years 1998 and 1999 from 5% to 4.5% and for a similar reduction after calendar year 1999 providing excess assets are available.

As a result of Chapter 115, the State of New Jersey's required contribution for the year ending June 30, 1999 was reduced by \$30,536,438 to \$375,951,311. For the year ended June 30, 1998, sufficient excess assets were available to fully fund the contribution for basic pension benefits, noncontributory death benefits and cost-of-living adjustments reducing the State's contribution to \$101,329,052, the required funding for post-retirement medical benefits and early retirement incentive benefits.

(4) Reserves

This Fund maintains the following legally required reserves, which are fully funded:

*Members' Annuity Savings and Accumulative Interest Fund (1999 - \$4,663,478,091;
1998 - \$4,283,120,426)*

The Members' Annuity Savings Fund is credited with all contributions made by active members of the Fund. Interest earned on member contributions is credited to the Accumulated Interest Fund. The annual rate of interest on member contributions, as required by Chapter 62, P.L. 1994, is 8.75%.

Contingent Reserve Fund (1999 - \$16,933,772,989; 1998 - \$14,425,709,863)

The Contingent Reserve Fund is credited with the contributions of employers other than post-retirement medical contributions. Interest earnings, after crediting the Accumulated Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund (1999 - \$10,597,724,286; 1998 - \$9,769,518,042)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, contributory group insurance premiums, and post-retirement medical premi-

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements, Continued

June 30, 1999 and 1998

(4) Reserves, Continued

ums, including cost-of-living benefits and medical benefits for certain retirees, are paid. Upon retirement of a member, accumulated contributions, together with accumulated regular interest, are transferred to the Retirement Reserve Fund from the Annuity Savings Fund. Any additional reserves needed for the retirement and cost-of-living benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.75% for 1999 and 1998) is credited to the Retirement Reserve Fund.

Special Reserve Fund (1999 - \$322,365,414; 1998 - \$284,181,567)

The Special Reserve Fund is the fund to which excess interest earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are charged. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the System, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund which amounted to \$68,682,962 and \$64,002,512 as of June 30, 1999 and 1998, respectively. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund (1999 - \$68,115,839; 1998 - \$63,781,731)

The Contributory Group Insurance Premium Fund represents the accumulation of member group insurance 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 active members is 0.4 of 1% of salary, as defined.

Post-Retirement Medical Fund (1999 - \$262,353,192; 1998 - \$251,406,132)

The Post-Retirement Medical Fund is credited with employer contributions for post-retirement medical benefits, interest earnings on post-retirement medical reserves, and from which post-retirement medical premiums are paid.

(5) 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.

State of New Jersey
Teachers' Pension and Annuity Fund
Required Supplementary Information
Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL ((b - a) / c)
March 31, 1995	\$16,942,637,259	\$18,410,393,538	\$1,467,756,279	92.0%	\$ 5,358,893,876	27.39%
March 31, 1996	20,843,247,418	19,828,428,735	(1,014,818,683)	105.12	5,594,150,132	(18.14)
March 31, 1997	22,045,481,579	21,224,484,588	(820,996,991)	103.9	5,771,763,164	(14.2)
March 31, 1998	24,478,860,383	23,484,403,450	(994,456,933)	104.2	5,989,748,156	(16.6)

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

Required Supplementary Information, Continued
Schedule of Funding Progress — Additional Actuarial Information

Significant actuarial methods and assumptions used in the March 31, 1998 and 1997 actuarial valuations included the following:

	March 31, 1998	March 31, 1997
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, closed	Level percent, closed
Payroll growth rate for amortization	5.00%	5.00%
Remaining amortization period	19 years	16 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%

The actuarial assumptions used in the March 31, 1998 valuation were developed on the basis of the three year experience study covering the period April 1, 1994 to March 31, 1997. The assumptions used in the March 31, 1997 valuation were based on the three year experience investigation for the period ended March 31, 1991.

Annual covered payroll is an estimate based upon annualizing one quarter's actual payroll.

State of New Jersey
Teachers' Pension and Annuity Fund
 Required Supplementary Information, Continued
 Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS (1)	PERCENTAGE CONTRIBUTED
1997	\$372,060,546	\$1,601,688,633 ⁽²⁾	430.5%
1998	297,219,482	0	0.0
1999	314,671,482	258,816,649	82.2

Notes to Schedule

- (1) Excludes post-retirement medical contributions and contributions received from other State of New Jersey retirement systems or funds for certain members who transferred their eligible prior service credit to the Teachers' Pension and Annuity Fund.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund, in full or in part, required employer contributions.

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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplemental Information

Year 2000 Issue (Unaudited)

The Funds are aware of the issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

New Jersey Division of Pensions and Benefits has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Division's operations. Based on this inventory, the Division is in the testing and validation stage for the computer systems; contracts totaling \$5,079,000 have been let as of June 30, 1999. Testing and validation of the systems are expected to be completed by October 1999; additional expenditures of \$50,000 are anticipated beyond June 30, 1999.

A Contingency Plan is currently being developed in the event of a system failure as a result of the year 2000 issue. The Contingency Plan reflects a general optimism and belief that all major organizations will have similarly planned, tested and implemented all necessary changes to their automated systems to render them compliant for processing of transactions in the year 2000. This optimism is based upon confirmations received from the Funds' primary processing vendors, including the Funds' banking services providers, that their systems are expected to be able to process transactions in the year 2000.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management can assure that the New Jersey Division of Pensions and Benefits has or will be completing testing of its proprietary computer systems and system interfaces with primary processing vendors by October 1999, and the successful remediation of year 2000 issues within these systems and interfaces. However, management cannot assure that the parties with whom the New Jersey Division of Pensions and Benefits does business, with the exception of system interfaces, will be year 2000 ready.

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

Schedule of Changes in Plan Net Assets by Fund

Year ended June 30, 1999

	MEMBERS' ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	SPECIAL RESERVE FUND	CONTRIBUTORY GROUP INSURANCE PREMIUM FUND	POST RETIREMENT MEDICAL FUND	OTHER	TOTAL
Additions:								
Contributions:								
Members	\$ 319,205,898	—	—	—	24,217,719	—	—	343,423,617
Employers	—	260,437,960	—	—	—	115,094,203	—	375,532,163
Other	—	—	—	—	—	—	2,170	2,170
Total contributions	319,205,898	260,437,960	—	—	24,217,719	115,094,203	2,170	718,957,950
Distribution of net investment income	347,141,760	3,039,083,469	854,487,567	38,183,847	3,505,418	21,998,036	—	4,304,400,097
Total additions	666,347,658	3,299,521,429	854,487,567	38,183,847	27,723,137	137,092,239	2,170	5,023,358,047
Deductions:								
Benefits	—	22,956,930	1,052,347,320	—	23,389,029	126,145,179	2,170	1,224,840,628
Refunds of contributions	17,492,873	452,938	—	—	—	—	—	17,945,811
Administrative expenses	—	10,479,558	—	—	—	—	—	10,479,558
Total deductions	17,492,873	33,889,426	1,052,347,320	—	23,389,029	126,145,179	2,170	1,253,265,997
Net increase (decrease) before transfers among reserves	648,854,785	3,265,632,003	(197,859,753)	38,183,847	4,334,108	10,947,060	—	3,770,092,050
Transfers among reserves:								
Retirements	(269,089,478)	(766,477,468)	1,035,566,946	—	—	—	—	—
Other	592,358	8,908,591	(9,500,949)	—	—	—	—	—
Net increase	380,357,665	2,508,063,126	828,206,244	38,183,847	4,334,108	10,947,060	—	3,770,092,050
Net assets held in trust for pension benefits:								
Beginning of year	4,283,120,426	14,425,709,863	9,769,518,042	284,181,567	63,781,731	251,406,132	—	29,077,717,761
End of year	\$4,663,478,091	16,933,772,989	10,597,724,286	322,365,414	68,115,839	262,353,192	—	32,847,809,811

Contacting the Division of Pensions and Benefits

The Division of Pensions and
Benefits **INTERNET HOME**

PAGE address (URL) is <http://www.state.nj.us/treasury/pensions>

You can send **e-mail** to the Division of
Pensions and Benefits through our

HOME PAGE or directly to NJ_pensions@tre.state.nj.us

You can **CONTACT CLIENT SERVICES** of

the Division of Pensions and Benefits at (609) 292-7524
Monday through Friday
from 9:00 am until 4:00 pm

The telephone number for individuals
who are hearing impaired and use a

TELECOMMUNICATION DEVICE FOR THE DEAF (TDD) is (609) 292-7718

You can hear personalized information about
loans, withdrawals, retirement benefits, purchase costs,
and your account within the retirement system. This system
is available 24 hours a day, seven days a week. You will
need your social security number and a touch phone.

AUTOMATED INFORMATION SYSTEM (609) 777-1777

You can **WRITE** to the Division of

Pensions and Benefits at Division of Pensions and Benefits
P.O. Box 295
Trenton, NJ 08625-0295

You can **VISIT** the Division of Pensions
and Benefits, without appointment,

on the third floor at 50 West State Street
in downtown Trenton, New Jersey
on Monday through Friday
from 8:40 am until 4:00 pm.

We are on the corner of West State and
Barracks Streets, a block east of the
State House. **DIRECTIONS** to our location
can be downloaded from our Internet

web site or obtained by calling our Benefit Information Library
at (609) 984-7109
7 days a week, 24 hours a day

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

1999 ANNUAL REPORT

STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY

DIVISION OF PENSIONS AND BENEFITS

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