TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

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1994

ANNUAL REPORT

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

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 1994 Annual Report in accordance with the provisions of N.J.S.A. 18A:66-59.

Respectfully Submitted,

HARRY BALDWIN

CHAPTER 19, LAWS OF 1994 repealed the statute prohibiting investment of State public pension fund assets in financial institutions and other companies doing business in or with the Republic of South Africa.

This law was approved and became effective on April 12, 1994.

CHAPTER 40, LAWS OF 1994 allows current or prospective individuals employed as long-term substitute teachers to waive or terminate enrollment in the State Health Benefits Program (SHBP), provided they are covered under another health benefits program. This law will allow a school district to eliminate the payment of a health benefit premium for the employee and thereby allow the substitute teacher to be employed for an extended period of time.

This law was approved and became effective on June 21, 1994.

CHAPTER 62, LAWS OF 1994, instituted the following changes:

(1) Continued prefunding of post-retirement medical benefits (PRM) for State employees under the Public Employees' Retirement System, and for teachers under the Teachers' Pension and Annuity Fund at a reduced level through annual contributions at the rate of .5% of payroll, plus the amount sufficient to pay the current premiums;

(2) Changes the funding method for determining the employer contributions to the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS) and the Judicial Retirement System (JRS) from the entry age normal method to the projected unit credit method and resets the amortization period for the unfunded accrued liability to an initial period not to exceed 40 years, with a 10-year transition period to a flexible 30-year amortization period;

(3) Changes the employee contribution rates to TPAF and PERS to a flat 5% for **new** employees effective July 1, 1994. For **current** employees whose contribution rate is less than 6%, the new contribution rate will be a flat 4% effective July 1, 1995 and 5% effective July 1, 1996. For **current** employees whose contribution rate is 6% or more, the new contribution rate will be a flat 5% effective July 1, 1995;

(4) Phases in the impact of revisions in the tables of actuarial assumptions under TPAF over five years;

(5) Reverts to the original schedule for recognition and funding of pension adjustment benefits (cost-of-living adjustments - COLA) under TPAF and PERS established by the law which originally provided for the funding of these benefits under the retirement systems;

(6) Establishes for TPAF, PERS, PFRS, SPRS and JRS a 4% inflation assumption for the COLA benefits, except that if the actual annual rate of increase in the Consumer Price Index exceeds 4% in two consecutive years, the respective boards of trustees shall review that rate and, if necessary and after consultation with the State Treasurer, the Director of the Division of Investment, the Director of the Division of Pensions and Benefits and appropriate actuary, revise the rate "to a level which reasonably relates to the change in the Consumer Price Index..."

(7) Establishes a salary increase assumption of 2.8% less than the regular interest rate for valuation years 1992 through 1996 (or in the case of PFRS, valuation years 1991 through 1995), at which time the respective boards of trustees of the retirement systems shall review that assumed percentage rate of salary increase and, if necessary and after consultation with the State Treasurer, the Director of the Division of Pensions and Benefits and the appropriate actuary, revise the 2.8% to a "reasonable level";

(8) Authorizes the members of TPAF, PERS, PFRS, SPRS, JRS and participants in the Alternate Benefit Program to waive noncontributory insurance benefits in excess of $50,000;

(9) Establishes a moratorium on withdrawals by participating employers from the State Health Benefits Program (SHBP); and

(10) Changes the amount of the State's payment to the Police and Firemen's Retirement System to fund the increase in benefits for 25-year retirees under P.L. 1979, c.109 from 1.4% to 1.1% of the compensation of the members of the system for each valuation year.

This law was approved and became effective June 30, 1994.

MEMBERSHIP

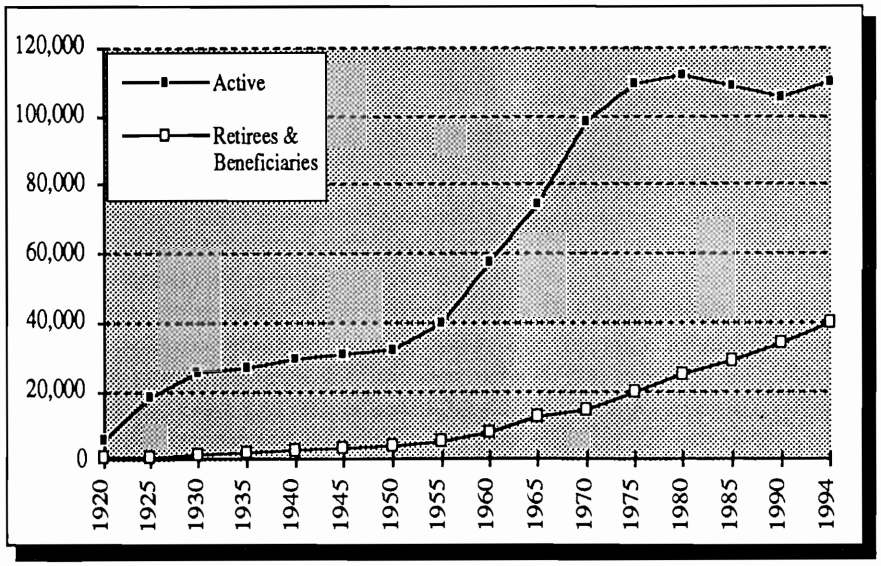
- As of June 30, 1994, the active contributing membership of the system totaled 110,178*.

- There were 39,691 retirees and beneficiaires receiving annual pensions totaling $649,334,156. (This includes benefits paid under the provisions of the Pensions Adjustment Act).

- Beneficiaries of 1,676 deceased active and retired members received lump sum death benefits in the amount of $41,976,457.

- The system's assets totaled $12,757,321,691 at the close of fiscal year 1994.

** Total inactive membership as of June 30, 1994 was 9,032.*



MEMBERSHIP ACTIVITY

During fiscal year 1994, 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.

- **WITHDRAWAL** - 2,508 members withdrew from the system.

- **LOANS** - 23,794 members applied for and received loans on their accounts totaling $148,443,887.

- **RETIREMENT** - 2,306 members retired under the following retirement types and options.

TYPE OF RETIREMENT	
Service	963
Early	720
Deferred	95
Ordinary Disability	101
Accidental Disability	2
Veteran	425
TOTAL	**2,306**

OPTION SELECTION	
Maximum	1,010
Option 1	378
Option 2	469
Option 3	421
Option 4	28
TOTAL	**2,306**

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

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 (a component unit of the State of New Jersey) as of June 30, 1994 and 1993, 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 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.

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 1994 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). Also, as discussed in notes 2 and 4, legislation enacted in 1993 significantly revised the actuarial funding

methodology and actuarial assumptions retroactive to the March 31, 1991 valuation date.

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, 1994 and 1993, and its revenues, expenses and changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Our audits for the years ended June 30, 1994 and 1993 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 for the years ended June 30, 1994 and 1993 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 for the years ended June 30, 1994 and 1993.

We have also previously audited, in accordance with generally accepted auditing standards, the balance sheets of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 1992 and 1985, and the related statements of revenues, expenses and changes in fund balances for the years then ended (none of which is presented herein), and we expressed unqualified opinions on those financial statements. In our opinion, the supplementary information included in the schedule of analysis of funding progress related to the 1992 financial statements (information for 1985 is unavailable) and schedule of revenues by source and expenses by type related to the 1992 and 1985 financial statements is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

The financial statements of the State of New Jersey Teachers' Pension and Annuity Fund as of and for the six years ended June 30, 1991 were audited by other auditors whose report thereon dated October 22, 1991, stated that the supplementary information, prior to the revision for the pension revaluation, for the six years ended June 30, 1991, included in the schedules of analysis of funding progress and revenues by source and expenses by type was fairly stated in all material respects in relation to the financial statements for the six years ended June 30, 1991, taken as a whole.

October 28, 1994 /s/ KPMG Peat Marwick

Balance Sheets

June 30, 1994 and 1993

	1994	1993
Assets:		
Investments, at cost:		
Bonds (market value of $291,600,335 in 1994 and $360,904,126 in 1993)	$ 295,573,323	338,768,062
Common Pension Fund A (market value of $7,780,119,003 in 1994 and $7,787,584,255 in 1993)	5,288,724,329	4,641,126,985
Common Pension Fund B (market value of $4,426,478,075 in 1994 and $4,793,882,684 in 1993)	4,431,008,515	4,326,184,675
Common Pension Fund D (market value of $1,551,066,839 in 1994 and $1,167,702,697 in 1993)	1,387,899,494	1,025,332,627
Cash Management Fund (market value of $237,315,429 in 1994 and $507,850,210 in 1993)	237,315,429	507,850,210
Mortgages (market value of $542,262,108 in 1994 and $870,611,067 in 1993)	563,908,651	828,459,465
Total investments	12,204,429,741	11,667,722,024
Receivables:		
Contributions:		
Members	62,790,582	54,462,682
Employer	14,499,604	867,569
Investments:		
Accrued interest	274,298,569	192,840,889
Dividends	52,524,451	48,956,832
Member loans	148,443,887	144,935,883
Other	334,857	612,821
Total receivables	552,891,950	442,676,676
Total assets	$ 12,757,321,691	12,110,398,700

See accompanying notes to financial statements

Balance Sheets

June 30, 1994 and 1993

	1994	1993
Liabilities and Fund Balances		
Liabilities:		
Retirement benefits payable	$ 55,349,684	51,161,792
Death benefits payable	1,759,230	1,797,280
Cash overdraft	4,775,637	945,282
Payable for investments purchased	-	146,856,696
Accounts payable and accrued expenses	7,267,431	4,998,636
Total liabilities	69,151,982	205,759,686
Fund balances:		
Members' Annuity Savings Fund and Accumulative Interest	2,898,358,435	2,584,431,134
Contingent Reserve Fund	3,086,895,192	3,712,181,802
Retirement Reserve Fund	6,528,768,289	5,472,576,093
Special Reserve Fund	121,518,962	82,689,498
Contributory Group Insurance Premium Fund	52,628,831	52,760,487
Total fund balances	12,688,169,709	11,904,639,014
Total liabilities and fund balances	$ 12,757,321,691	12,110,398,700

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

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

Statements of Revenues, Expenses and Changes in Fund Balances

For the year ended June 30, 1993

	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	$ 200,184,319	-	-	-	18,629,272	-	218,813,591
Employers	-	347,312,560	-	-	-	-	347,312,560
Investment revenue	189,134,709	312,635,740	412,579,859	-	1,941,011	-	916,291,319
Other	-	-	-	-	-	24,117	24,117
Total revenues	389,319,028	659,948,300	412,579,859	-	20,570,283	24,117	1,482,441,587
Expenses:							
Benefit payments	-	-	481,991,475	-	-	-	481,991,475
Cost-of-living adjustments	-	-	116,175,042	-	-	-	116,175,042
Withdrawals	9,969,566	-	-	-	-	-	9,969,566
Noncontributory group insurance death benefits	-	18,545,896	-	-	-	-	18,545,896
Administrative expenses	-	8,262,263	-	-	-	-	8,262,263
Health benefit premiums and other	-	80,160,935	-	-	20,203,638	24,117	100,388,690
Total expenses	9,969,566	106,969,094	598,166,517	-	20,203,638	24,117	735,332,932
Excess (deficiency) of revenues over expenses	379,349,462	552,979,206	(185,586,658)	-	366,645	-	747,108,655
Transfers among funds:							
Retirements	(168,542,439)	(777,718,758)	946,261,197	-	-	-	-
Others	482,620	248,473,555	(219,899,959)	(29,056,216)	-	-	-
Fund balances at beginning of year	2,373,141,491	3,688,447,799	4,931,801,513	111,745,714	52,393,842	-	11,157,530,359
Fund balances at end of year	$ 2,584,431,134	3,712,181,802	5,472,576,093	82,689,498	52,760,487	-	11,904,639,014

Notes to Financial Statements

June 30, 1994 and 1993

(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

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies

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.

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 considered a component unit of the State of New Jersey and 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, continued**

Membership in the Fund as of March 31, 1993 and 1992 was as follows:

	1993	1992
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	40,355	38,185
Active members:		
Vested	74,106	74,717
Nonvested	41,207	39,148
Total active members	115,313	113,865

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

(2) **Description of the Fund, continued**

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.

Pension reform legislation was passed during the year which required various changes in the actuarial funding policy. Specifically, the legislation contains the following provisions: (1) changing the valuation funding method from the Entry Age Normal Method with a frozen initial liability to the Projected Unit Credit Method; (2) eliminating the prefunding of post-retirement medical premiums and reverting 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) resetting the amortization period for the accrued liabilities from 30 to 40 years beginning July 1, 1992; (4)

(2) **Description of the Fund, continued**

reducing the assumed rate for cost of living adjustments (COLA) from 3.0% to 2.4%; (5) reducing the assumed rate of salary growth to approximately 5.95%; (6) revising the phase-in schedule for recognizing active members' COLA benefits as follows: 20.0% for 1992 valuation and 23.3% for the 1993 valuation with increases of 2.33% thereafter until 100% funding is reached in 2026. Previously, 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) extending the phase-in period for recognition of the latest Fund experience changes from two to five years. The above changes are effective as of the 1992 valuation year (fiscal year 1994).

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 contains a provision which allows members to waive their group life insurance coverage in excess of $50,000. Finally, the legislation requires 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.

Legislation was passed in 1993 which provided early retirement incentives to State of New Jersey employees who met certain age and service requirements and who applied for retirement on or before June 1, 1993 with a requested effective retirement date between April 1, 1993 and July 1, 1993. The early retirement incentives included the following: (a) an additional five years of service credit for employees at least age 50 with a minimum of 25 years of service; (b) free health benefits for employees at least age 60 with at least 20 years of service; and (c) an additional $500 per month for 24 months for employees at least age 60 with ten but less than 20 years of service.

(2) **Description of the Fund, continued**

Early retirement legislation was enacted after June 30, 1993 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.

The benefit obligations were determined as part of the most recent annual actuarial valuations dated March 31, 1993 and 1992 (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.

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

The projected unfunded pension benefit and post-retirement medical benefit obligations as of June 30, 1993 and 1992 were as follows:

	Pension benefit obligation	Post-retirement medical benefit obligation
	(In thousands) 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

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

Notes to Financial Statements

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

	Pension benefit obligation	Post-retirement medical benefit obligation
	(In thousands) 1992	
Benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 4,784,470	610,500
Current employees:		
Accumulated employees' contributions with interest	2,324,090	-
Employer-financed vested	7,107,590	1,240,200
Employer-financed nonvested	505,310	96,220
Total benefit obligations, including cost-of-living adjustments	14,721,460	1,946,920
Net assets available for benefits at market-related value (market value of net assets available for benefit obligations amounts to ($14,204,060)	13,706,376	142,070
Unfunded benefit obligations	$ 1,015,084	1,804,850

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; and (e) mortality, vesting, retirement and withdrawal

(3) Pension Benefit and Post Retirement Medical Benefit Obligations, continued

estimates based on tables furnished by the actuary. 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.

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. Beginning July 1, 1994, all new members will be assigned a 5% contribution rate. For those enrolled prior to this date, the rate change to 5% will be effective July 1, 1995, with a 1% offset for those employees whose current full contribution rate is 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 and the costs for medical premiums after retirement for qualified retirees and an amount that is required to fund noncontributory death benefits. As of March 31, 1993 and 1992, normal costs were determined to be $75,549,000 and $171,978,000, respectively. The accrued liability (pension benefit and post-retirement medical benefit obligation) funding costs for active COLA benefits and post-retirement medical premiums were

(4) Contribution Policy, continued

$17,546,000 and $14,179,000, at March 31, 1993 and 1992, 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 appropriation for the year ended June 30, 1994 is based on the revised 1992 actuarial valuation.

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. Basic benefits are in a surplus position to the extent of $1,523,272,530, while COLA benefits have an unfunded accrued liability of $1,616,847,738. At March 31, 1993, basic benefits are in a surplus position to the extent of $687,652,767, while COLA benefits have an unfunded accrued liability of $1,768,564,742, resulting in a net unfunded accrued liability of $1,080,911,975. There is an additional unfunded liability of $127,711,627 due to the early retirement incentive program. The amortization period for the unfunded liabilities is initially set at 40 years beginning July 1, 1992.

Total pension contributions recognized for the years ended June 30, 1994 and 1993 were $373,114,000 and $547,497,000, respectively ($138,316,000 in 1994 and $347,313,000 in 1993 from the State of New Jersey and $234,798,000 in 1994 and $200,184,000 in 1993 from members, or 2.7% and 4.6%, respectively, in 1994 and 7.2% and 4.2% in 1993, respectively, of annual covered compensation), of which $46,792,000 in 1994 and $119,379,000 in 1993 represented the actuarially determined employer contribution amount. The 1994 and 1993 State of New Jersey contributions are based on the 1993 and 1992 revised 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, 1994 and 1993. 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.

(5) **Description of the Fund Balances, continued**

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 1994 and 1993) 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 $52,534,000 and $52,341,000 in the Cash Management Fund at June 30, 1994 and 1993, 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 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, 1994 and 1993, 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.

(6) Investments, continued

The following presents a summary of investment securities as of June 30, 1994 and 1993 and the approximate market values.

	Book value	Market value
	(In thousands)	
	1994	
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	221,603	219,260
	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	563,909	542,262
Total	$ 12.204.429	14.828.841
	1993	
Bonds:		
U.S. and municipal government bonds	121,616	128,215
Industrial bonds	156	162
Telephone bonds	5,698	5,708
Gas, electric and water bonds	9,198	9,197
Other	202,100	217,622
	338.768	360.904
Common Pension Fund A	4.641.127*	7.787.584
Common Pension Fund B	4,326,185*	4,793,883
Common Pension Fund D	1,025,333*	1,167,703
State of New Jersey Cash Management Fund	507,850	507,850
Mortgages	828,459	870,611
Total	$ 11.667.722	15.488.535

* 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. 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 1995 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.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information

Analysis of Funding Progress

Years 1986 through 1994

(In Millions)

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

Pension Benefit Obligation

Plan year year	Net assets avail- able for benefits	Benefit obliga- tion	Per- centage funded	Unfunded benefit obliga- tion	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

Post-retirement Medical Premiums Obligation

Plan fiscal year	Net assets available for benefits	Benefit obliga- tion	Per- centage funded	Unfunded benefit obliga- tion
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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information, Continued

Analysis of Funding Progress

(In Millions)

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.

Information for the year ended June 30, 1985 is unavailable.

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.

Schedule 2

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information

Revenues by Source and Expenses by Type

Years 1985 through 1994

	Revenues by Source				
Plan fiscal year	Members' contri-butions	Employer contri-butions	Percent-age of annual covered compen-sation	Investment and other revenue	Total
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

	Expenses by Type				
Plan fiscal year	Benefits: Retirement	Benefits: Other*	Withdrawals, adminis-trative and other expenses	Transfers to other retire-ment systems	Total
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

*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.