

PUBLIC EMPLOYEES'
RETIREMENT SYSTEM
OF
NEW JERSEY



1988
Annual Report

**DEPARTMENT OF
THE TREASURY**

**DIVISION OF
PENSIONS**

FEATHER O'CONNOR
Treasurer

DOUGLAS R. FORRESTER
Director

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
OF NEW JERSEY**

20 West Front Street
Trenton, New Jersey 08625

BOARD

NORMA J. SAWYER, Chairperson

THOMAS P. BRYAN, State Treasurer Representative

SUZANNA BURIANI-DeSANTIS

REGINE BROWN

JAMES H. BIGGS

CANDACE L. STRAIGHT

JOSEPH W. STAUSS

GARY SAAGE

JANICE F. NELSON, Secretary

GEORGE B. BUCK
Consulting Actuaries, Inc.

MEDICAL BOARD

WILLIAM COLEMAN, M.D.

RALPH CAGAN, M.D.

MURRAY SHEPP, M.D.

To His Excellency

Thomas H. Kean

Governor of the State of New Jersey

Dear Sir:

The board of trustees of the Public Employees' Retirement System is pleased to present the Thirty-Fourth Annual Report in compliance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

NORMA J. SAWYER,
Chairperson

Annual Report

Chapter 311, Laws of 1987, provides both contributory and noncontributory life insurance benefits for all legislators without proof of insurability (i.e., medical examinations). If a legislator, who, for whatever reason, did not qualify for or apply for contributory and/or noncontributory life insurance coverage by virtue of his or her legislative PERS membership, died while an active legislator since January 8, 1974, his or her designated beneficiary is to receive both the contributory and noncontributory life insurance benefits of three times salary. This law permits the Division of Pensions to deduct from the total death benefits payable the amount of contributions that would have been made by the deceased legislator for his or her contributory life insurance coverage during his or her legislative tenure if that legislator had enrolled and contributed to such a program. This law was approved on December 14, 1987, but is retroactively effective back to January 8, 1974.

Chapter 446, Laws of 1987, guarantees that PERS members and/or their beneficiaries will receive in benefits an amount equal to at least the member's accumulated personal contributions to the PERS plus the regular interest that was computed at the time of the member's retirement. If the total amount of benefits paid to a retiree who does not select an optional settlement or to both the retiree and his or her beneficiary under an optional settlement is less than the amount of the member's accumulated personal contributions plus the regular interest computed at the time of his or her retirement, the balance shall be paid in a lump sum to the member's designated beneficiary or to the member's estate if such funds cannot be paid to a designated beneficiary. This law was approved and became effective on January 19, 1988.

As a result of the annual election, Arthur J. Flynn was elected to a 3-year term commencing July 1, 1988. Norma J. Sawyer was elected chairperson by the Board effective July 1, 1986.

You are Viewing an Archived Copy from the New Jersey State Library
MEMBERSHIP

A summary of the membership activity for the fiscal year ended June 30, 1988, follows:

26,771—enrollments
 5,105—retirements
 21,838—active accounts terminated through
 separation from employment
 885—deaths before retirement

Comparative data on membership for selected June 30 periods since 1955 follow:

<u>June 30</u>	<u>Active</u>	<u>Retirees and Beneficiaries</u>	<u>Total</u>
1955	34,087	2,649	36,736
1960	50,576	7,116	57,692
1965	68,086	10,445	78,531
1970	113,866	13,298	127,164
1975	171,518	21,682	193,200
1980	205,038	35,185	240,223
1985	236,060	50,939	286,999
1987	218,615	57,092	275,707
1988	257,380	60,130	317,510

Retirements by Type and Option
July 1, 1987—June 30, 1988

<u>Service</u>	<u>Early</u>	<u>Deferred</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Veteran</u>	<u>Accidental Death</u>
2,881	257	220	14	219	942	4
	<u>Maximum</u>	<u>Option I</u>	<u>Option II</u>	<u>Option III</u>	<u>Option IV</u>	
	2,388	1,173	619	337	18	

Standard Retirement Payroll June 30, 1988

Regular Allowance—60,130 retirees and beneficiaries	20,507,857
Pension Adjustment Act—	4,449,985
Gross Payroll, month of June 1988	\$ 24,957,842

Comparative data on the standard retirement payroll and average allowances for selected June 30 periods follow:

<u>June 30</u>	<u>Number</u>	<u>Payroll</u>
1955	2,649	\$ 2,848,923*
1960	7,116	8,876,808*
1965	10,445	16,737,419*
1970	13,298	24,036,226*
1975	21,682	53,518,488*
1980	35,185	144,408,900*
1985	50,939	213,581,142*
1987	57,092	260,460,447*
1988	60,130	286,212,417*

*Includes benefits paid under the provisions of the Pension Adjustment Act.

GROUP LIFE INSURANCE CLAIMS: (CASH BASIS)

Active Members

<u>Number</u>	<u>Settlement</u>	<u>Amount</u>
838	Cash Lump Sum	\$48,756,589
	Reserve	
<u>11</u>	Monthly Annuities	<u>560,112</u>
	Total active member	
849	death claims	\$49,316,701

Retired Members

1,758	Regular Retirees	
	(Death after age 60)—	
	Lump Sum	\$ 4,542,875
35	Disability Retirees	
	(Death before age 60)—	
	Lump Sum	<u>904,198</u>
1,793	Total death claims—	
	retirants	<u>\$ 5,447,073</u>
<u>2,642</u>	Total claims—active	
	and retired members	<u><u>\$54,763,774</u></u>

SUMMARY OF CLAIM CHARGES (CASH BASIS)

Noncontributory Plan:

Active Members	849	\$24,971,332
Retirees	1,793	5,447,073
	<u>2,642</u>	<u>\$30,418,405</u>

Contributory Plan:

Active Members	<u>\$24,345,369</u>	<u>\$54,763,774</u>
----------------	---------------------	---------------------

Return of Contributions:

a) 21,838 members withdrew from the system and received a return of the pension contributions totaling	\$29,609,195
b) The survivors of 885 members who died before retirement received a return of the members' contributions totaling	\$ 7,669,893
c) Settlement of inactive accounts	<u>334,907</u>
	<u>37,613,995</u>

Loans:

49,344 members applied for and received loans on their accounts totaling \$81,674,370.

UNCLAIMED ACCOUNTS

Unclaimed accounts, June 30, 1987	\$2,968,871
Memberships discontinued and not settled during 1987-88	\$1,046,764
Memberships discontinued and settled in 1987-88	<u>127,785</u>
Added in fiscal year 1987-88	<u>1,174,549</u>
	<u>4,143,420</u>
Less:	
Cash settlements during fiscal year	\$334,907
Cash escheat to State Treasurer	450,665
Transferred to new accounts	<u>29,254</u>
	<u>814,826</u>
BALANCE, JUNE 30, 1988	<u>\$3,328,594</u>

Lists of the new additions during 1987-88 have been sent to all employing units with a request that they circulate copies among their memberships in an effort to ascertain the whereabouts of the listed former members and advise the Division of Pensions.

Ernst & Whinney

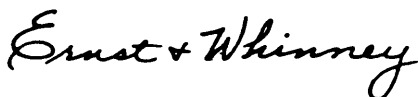
Suite 200
202 Carnegie Center
Princeton, New Jersey 08540
609/243-0303

Board of Trustees
State of New Jersey
Public Employees' Retirement System

We have audited the accompanying component unit financial statements of the State of New Jersey Public Employees' Retirement System as of June 30, 1988 and 1987 and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Public Employees' Retirement System at June 30, 1988 and 1987, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

A handwritten signature in cursive script that reads "Ernst & Whinney".

Princeton, New Jersey
October 28, 1988

BALANCE SHEET

STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM

	June 30,	
	1988	1987
ASSETS		
Investments at cost:		
Bonds (market value of \$110,339,333 in 1988 and \$161,247,457 in 1987)	\$ 119,964,769	\$ 175,525,939
Common Pension Fund A (market value of \$3,270,996,873 in 1988 and \$3,565,226,021 in 1987)	2,560,411,153	2,198,363,695
Common Pension Fund B (market value of \$2,539,297,262 in 1988 and \$2,310,541,269 in 1987)	2,495,528,958	2,221,577,885
Cash Management Fund (market value of \$220,018,027 in 1988 and \$198,626,165 in 1987)	220,018,027	198,626,165
Mortgages (market value of \$915,217,030 in 1988 and \$705,444,269 in 1987)	924,752,999	721,368,751
Total Investments	6,320,675,906	5,515,462,435
Receivables:		
Contributions:		
Members	43,503,435	37,138,287
Employers	100,033,813	108,135,289
Investments:		
Accrued interest	71,842,471	64,689,161
Dividends	23,412,282	20,593,740
Members' loans	106,186,163	99,594,006
Due from Pension Adjustment Fund	4,451,959	4,111,291
Other	5,293,161	1,499,355
Total Receivables	354,723,284	335,761,129
Cash	7,237,401	9,799,771
TOTAL ASSETS	\$6,682,636,591	\$5,861,023,335

June 30,
1988 1987

LIABILITIES AND FUND BALANCES

Liabilities:

Retirement benefits payable	\$ 25,130,825	\$ 22,595,449
Death benefits payable	2,914,353	2,533,458
Cash overdraft	33,191,033	0
Accounts payable and accrued expenses	19,753,985	12,648,648
Total Liabilities	<u>80,990,196</u>	<u>37,777,555</u>

Fund Balances:

Members' annuity savings fund and accumulative interest	1,603,691,860	1,440,319,050
Contingent reserve fund	2,743,038,475	2,384,942,253
Retirement reserve fund	2,159,037,876	1,907,372,343
Special reserve fund	62,870,375	54,816,127
Contributory group insurance premium reserve fund	33,007,809	35,796,007
Other fund	0	0
Total Fund Balances	<u>6,601,646,395</u>	<u>5,823,245,780</u>

TOTAL LIABILITIES AND FUND BALANCES

<u>\$6,682,636,591</u>	<u>\$5,861,023,335</u>
------------------------	------------------------

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM

	Fund Balances						Totals	
	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund	Year Ended 1988	June 30, 1987
REVENUES								
Contributions:								
Members	\$199,595,206				\$24,302,701		\$ 223,897,907	\$ 205,147,300
Employers		\$308,668,135					308,668,135	296,480,787
Investment revenue	77,447,362	387,453,624	\$126,778,484	\$8,054,248	3,786,963		603,520,681	622,060,529
Pension Adjustment Fund						\$52,413,887	52,413,887	51,660,869
Other						95,154	95,154	388,534
TOTAL REVENUES	277,042,568	696,121,759	126,778,484	8,054,248	28,089,664	52,509,041	1,188,595,764	1,175,738,019
EXPENSES								
Benefit payments			242,959,969				242,959,969	216,983,863
Withdrawals	33,116,926						33,116,926	29,767,617
Noncontributory group insurance death benefits		34,179,691					34,179,691	26,348,897
Pension Adjustment Fund						52,413,887	52,413,887	51,878,180
Transfers to other funds	5,567,013	10,961,391					16,528,404	34,325,293
Other		23,256			30,877,862	95,154	30,996,272	23,440,032
TOTAL EXPENSES	38,683,939	45,164,338	242,959,969	0	30,877,862	52,509,041	410,195,149	382,743,882
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	238,358,629	650,957,421	(116,181,485)	8,054,248	(2,788,198)	0	778,400,615	792,994,137

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES—Continued

STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM

	Fund Balances						Totals	
	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund	Year Ended 1988	June 30, 1987
Transfers between funds for:								
Retirements by members	(75,194,238)	(250,937,785)	326,132,023				0	0
Other	208,419	(41,923,414)	41,714,995				0	0
FUND BALANCES AT BEGINNING OF YEAR	<u>1,440,319,050</u>	<u>2,384,942,253</u>	<u>1,907,372,343</u>	<u>54,816,127</u>	<u>35,796,007</u>	<u>0</u>	<u>5,823,245,780</u>	<u>5,030,251,643</u>
FUND BALANCES AT END OF YEAR	<u><u>\$1,603,691,860</u></u>	<u><u>\$2,743,038,475</u></u>	<u><u>\$2,159,037,876</u></u>	<u><u>\$62,870,375</u></u>	<u><u>\$33,007,809</u></u>	<u><u>\$ 0</u></u>	<u><u>\$6,601,646,395</u></u>	<u><u>\$5,823,245,780</u></u>

See notes to financial statements.

You are Viewing an Archived Copy from the New Jersey State Library
STATEMENTS OF CHANGES IN FINANCIAL POSITION

**STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

	Year Ended June 30,	
	1988	1987
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	\$ 778,400,615	\$ 792,994,137
Items not requiring (providing) financial resources:		
Accretion and amortization—net	(2,265,965)	(2,901,543)
Net (gain) loss on sales and maturities of long-term investments	13,491,942	(18,068,522)
Net realized gain on Common Pension Funds A and B	(195,564,976)	(218,770,772)
	<u>594,070,616</u>	<u>553,253,300</u>
Proceeds from sales and maturities of long-term investments	447,214,945	525,974,764
Decrease in contributions receivable	1,736,328	10,956,310
Increase in retirement benefits payable	2,535,376	1,967,035
Decrease (increase) in other receivables	(4,134,474)	5,387,417
Decrease (increase) in member loans	(6,592,157)	602,163
Increase in death benefits payable	380,895	615,091
Increase in payable for investments purchased	33,191,033	0
Increase in accounts payable and accrued expense	7,105,337	1,397,194
Total sources of financial resources	<u>1,075,507,899</u>	<u>1,100,153,274</u>
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	1,046,706,555	998,018,387
Increase in Cash Management Fund	21,391,862	78,373,507
Increase in accrued investment income	9,971,852	8,883,125
Total uses of financial resources	<u>1,078,070,269</u>	<u>1,085,275,019</u>
NET INCREASE (DECREASE) IN CASH	(2,562,370)	14,878,255
CASH (OVERDRAFT), beginning of year	<u>9,799,771</u>	(5,078,484)
CASH (OVERDRAFT), end of year	<u>\$ 7,237,401</u>	<u>\$ 9,799,771</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM

June 30, 1988

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Public Employees' Retirement System (System) are prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

Financial statement footnote disclosures are in accordance with Statement Number 5 of the Governmental Accounting Standards Board, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers."

Valuation of Investments: Bonds with fixed maturities are reported at cost, adjusted for amortization of premium or accretion of discounts on the straight-line basis for securities which mature within one year and the effective interest rate method for other securities.

Investments in the Common Pension Funds represent commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants. These investments are valued at cost plus undistributed realized net gains of \$186,959,216; consisting of \$186,710,066 in Common Pension Fund A and \$249,150 in Common Pension Fund B at June 30, 1988.

Investments in the Cash Management Fund are stated at a cost of \$1.00 per unit, which approximates quoted market.

Mortgages are valued at the amount of unpaid principal balance of the loan, adjusted for accretion of discounts which are amortized over the life of the loans.

Purchases and sales of investments are reflected on a trade date basis. Realized gains and losses on sales of investments are determined by the average cost basis and recognized as investment income when sale occurs. Interest and dividend income on investments is recognized when earned.

Administrative Expenses: The system is administered by the State of New Jersey Division of Pensions. All administrative expenses are allocated to the State and State-related (local governmental agencies) employers and they are responsible for such cost. The System's assets available for paying benefits are not reduced for administrative expenses.

NOTE B—DESCRIPTION OF THE SYSTEM

Organization: The System is a cost-sharing multiple-employer con-

NOTES TO FINANCIAL STATEMENTS—Continued

tributary defined benefit plan which was established as of January 1, 1955, under the provision of N.J.S.A. 43:15A. The System is considered a component unit of the State of New Jersey and is included along with other State-administered pension trust funds in the general purpose financial statements of the State.

The System's designated purpose is to provide retirement benefits and other benefits to its members. Membership in the System is mandatory for substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction. The System's Board of Trustees is responsible for its organization and administration.

Membership in the System as of March 31, 1987, the date of the most recent actuarial valuation, was as follows:

Retirees and beneficiaries currently receiving	
benefits and terminated employees entitled to	
benefits but not yet receiving them	<u>58,503</u>
Active members:	
Vested	81,092
Nonvested	<u>159,193</u>
TOTAL	<u>240,285</u>

Loans Receivable: The System provides for member loans up to 50% of their accumulated member contributions. To obtain a loan, a member must make three years of contributions to the member's savings account. Repayment of loan balances is deducted from payroll checks and bears an annual interest rate of 4%. Benefit payments are utilized to repay any outstanding loan balance upon retirement, termination, or death.

Pension Adjustment Program: Pursuant to N.J.S.A. 43:3B in 1958, eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. These cost-of-living increases are not payable by the System. The cost-of-living increases are made from the State of New Jersey Pension Adjustment Fund which is funded on a "pay as you go" basis by the State and State-related employees.

NOTES TO FINANCIAL STATEMENTS—Continued

Vesting and Benefit Provisions: The vesting and benefit provisions are set by N.J.S.A. 43:15A. The System provides retirement as well as death and disability benefits. All benefits vest after 8 to 10 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. 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 receiving 25 years of service credit or they may elect deferred retirement after achieving 10 years of service in which case benefits would begin the first day of the month after the member attains normal retirement age.

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

Other: According to the retirement code, all obligations to participants will be assumed by the State should the System terminate.

Information about the System, including vesting and benefit provisions is published in pamphlet format. Copies of these pamphlets are available from the State of New Jersey Division of Pensions.

NOTE C—PENSION BENEFIT OBLIGATION

The following "pension benefit obligation" is the actuarial present value of credited projected benefits. It is a standardized disclosure measure representing the present value of pension benefits adjusted for the effects of projected salary increases estimated to be payable in the future based on employee service credit to date. This measure is independent of the actuarial funding method used to determine employer contributions to the system discussed in Note D.

The pension benefit obligation was determined as part of the annual actuarial valuation dated March 31, 1987. The liability was determined as of March 31 and projected forward to June 30, 1987 allowing for increases in benefits and variations in the population during the three month period.

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

Pension benefit obligations:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$1,968,989,000
---	-----------------

NOTES TO FINANCIAL STATEMENTS—Continued

Current employees:

Accumulated employees contributions	
with interest	1,440,319,000
Employer-financed vested	2,268,374,000
Employer-financed nonvested	<u>416,338,000</u>
Total pension benefit obligation	6,094,020,000
Net assets (fund balances) available for	
benefits at book value	
(market value of \$7,248,868,526)	<u>5,823,476,394</u>
Unfunded pension benefit obligation	\$ 270,543,606

The above liability was calculated based on the actuarial assumptions of a) rate of return on investments of 7-1/4% compounded annually as compared to 7-1/2% used in the prior year valuation; b) salary increases ranging from 8.39% at age 25 to 2.86% at age 69 which includes inflation, merit and productivity; c) assets valued at cost or amortized cost; and d) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary.

The pension benefit obligation increased \$241,200,000 due to the change in rate of return on investments actuarial assumption.

NOTE D—CONTRIBUTION POLICY

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members, employers, and the State. Member contribution rates range from 4.96% to 9.91% of salary based on the members' age at date of enrollment. Once members are assigned a rate, it is not normally adjusted.

In accordance with the provisions of Chapter 57, P.L. 1970, the contribution policy requires State-related employers and the State to make a normal contribution and a past service contribution as determined by a qualified actuary. The System's actuary uses the "projected benefit method" to determine normal costs which were determined to be \$296,707,822 as of March 31, 1987, the date of the most recent actuarial valuation. As of the same date, the actuary computed that, utilizing the present method of funding, the unfunded actuarial liability of the employers and the State for prior service was \$196,799,762. This amount is to be funded in approximately 24 years.

Total contributions for the year ended June 30, 1988 were \$508,263,341 (\$308,668,135 from employers and \$199,595,206 from members, or 6.8% and 4.8%, respectively, of annual covered compensation) of which \$289,238,286 represented the recommended normal contribution amount and \$16,070,235 related to the accrued liability fund-

NOTES TO FINANCIAL STATEMENTS—Continued

ing. The State appropriation for the year ended June 30, 1988, paid July 1, 1987, is based on the 1986 actuarial valuation and the State-related employer contributions are accrued on June 30, 1988, based on the most recent 1987 actuarial valuation.

Significant assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of pension benefit obligation discussed in Note C above with the exception of a rate of return on investment and salary increases, which were each $\frac{3}{4}$ of 1% lower for contribution requirements.

The contributing employers as of March 31, 1987 were comprised of the following:

State	1
County agencies	74
Municipalities	560
School districts	577
Other public agencies	427
TOTAL	<u>1,639</u>

The normal contribution includes an amount that is required to fund non-contributory death benefits.

NOTE E—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 System. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer which was $6\frac{1}{2}\%$ for the years ended June 30, 1988 and 1987. After three years of participation, withdrawing members receive interest at an annual rate of 2% of their accumulative contribution 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 benefit payments.

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 and other employers. Additionally interest earnings, 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

NOTES TO FINANCIAL STATEMENTS—Continued

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 the group insurance made by The Prudential Insurance Company of America to provide noncontributory cash death benefits are made from the Contingent Reserve Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits are paid. Upon retirement of a member, accumulated contributions together with accumulated regular interest are transferred to the Retirement Reserve Fund from the ASF. Any additional reserves needed for the retirement benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (6-1/2% for 1988 and 1987) is credited to the Retirement Reserve Fund. Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Contingent Reserve Fund upon advice of the actuary.

Special Reserve Fund: The Special Reserve Fund is the Fund to which any excess interest earnings and gains from sale and maturity of investments are transferred and against which any losses from the sale of securities are charged. The maximum limit on the accumulation of this account is 1% of the book value of the investments allocated to the System, excluding cash management fund investments allocated to the Contributory Group Insurance Premium Fund which amounted to \$33,638,432 at June 30, 1988. 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 their first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for this coverage is .55 of 1% of salary.

NOTE F—INVESTMENTS

The State of New Jersey Division of Investments under the jurisdiction of the State Investment Council, has the investment responsibility

NOTES TO FINANCIAL STATEMENTS—Continued

for all funds administered by the State of New Jersey Division of Pensions. All investments must conform to standards set by State law.

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

	<u>Book Value</u>	<u>Market Value</u>
	(in 000's)	
Bonds:		
U.S. and Municipal		
Government bonds	\$ 7	\$ 7
Industrial bonds	16,020	14,823
Telephone bonds	22,149	19,726
Gas, electric, and		
water bonds	61,958	57,039
Finance companies—		
senior debt	1,248	1,173
Railroad equipment		
obligations	734	700
Other	17,848	16,871
Subtotal	<u>119,964</u>	<u>110,339</u>
Common Pension Fund A	\$2,560,411	\$3,270,997
Common Pension Fund B	2,495,529	2,539,297
State of New Jersey Cash		
Management Fund	220,018	220,018
Mortgages	924,753	915,217
TOTAL	<u>\$6,320,675</u>	<u>\$7,055,868</u>

Investments in excess of 5% of net assets are:

	<u>June 30</u>	
	<u>1988</u>	<u>1987</u>
	(in 000's)	
Common Pension Fund A	\$2,560,411	\$2,198,364
Common Pension Fund B	2,495,529	2,221,578

NOTE G—INCOME TAX STATUS

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

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE H—HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 24 and 25.

ACTUARIAL EVALUATION

The information given below is taken from the valuation of March 31, 1987, showing the system's contributions (assets) and present and contingent benefits (liabilities) as of that date.

ASSETS

Present assets of system creditable to:

Retirement Reserve Fund:

(Includes minimum Pension Fund)

Credited to fund	\$1,779,736,681	
Add accrued interest creditable	83,623,616	
Add reserve transferable from Contingent Reserve Fund	43,065,874	\$ 1,906,426,171

Annuity Savings Fund:

Credited to fund	\$1,341,490,945	
Add accrued interest creditable	56,801,210	1,398,292,155

Contingent Reserve Fund:

Credited to fund	\$2,041,173,478	
Add accrued interest creditable	94,601,507	
Add excess interest earnings transferable from Special Reserve Fund	230,839,319	
Deduct reserve transferable to Retirement Reserve Fund	43,065,974	2,323,548,430

Special Reserve Fund:

Credited to fund	\$ 231,656,400	
Add excess interest earnings creditable	52,414,475	
Deduct excess interest earnings transferable to Contingent Reserve Fund	230,839,319	53,231,556

Other Non-System Funds:

Pension Adjustment Fund	147,709	
Contributory Group Insurance Premium Fund	36,654,164	36,801,873
Total Present Assets		\$ 5,718,300,185

Present value of prospective contributions of members to be made to Annuity Savings Fund	\$1,637,538,036	
Present value of prospective contributions payable by the state and local employers to the Contingent Reserve Fund as follows:		
Future normal contributions	3,008,929,156	
Future accrued liability contributions	<u>196,799,762</u>	
Total Prospective Assets		<u>4,843,266,954</u>
<u>TOTAL ASSETS</u>		<u>\$10,561,567,139</u>

LIABILITIES

Present value of benefits payable on account of beneficiaries or their dependents now drawing allowance from the Retirement Reserve Fund		\$ 1,906,426,171
Present value of benefits payable from contributions to the Annuity Savings Fund and the Contingent Reserve Funds:		
Service retirement allowance including early retirement and vesting benefits	\$6,778,714,264	
Ordinary disability retirement allowances	354,964,868	
Accidental disability retirement allowances	89,161,546	
Ordinary death benefits	770,967,902	
Accidental death benefits	8,277,191	
Return of members' contributions upon withdrawal before retirement	<u>616,253,324</u>	<u>8,618,339,095</u>
Offsetting liability equal to non-system funds		\$36,801,873
<u>TOTAL LIABILITIES</u>		<u>\$10,561,567,139</u>

CONTRIBUTORY INSURANCE

The board of trustees is authorized by law to purchase a group life insurance policy to provide for the benefits which are to be met by contributions by members. The statute requires the board to establish rates of contributions for the purpose of maintaining the Contributory Group Insurance Premium Fund at a level sufficient to meet the obligations of the fund for the cost of insurance.

In the administration of the program certain amounts derived from employee contributions have been left on deposit with the carrier for specific reasons. A brief description of each deposit account is noted below:

1. **Dividend Accumulation**—This is an account established by the board of trustees, as policyholder, into which dividends arising from the active life experience are deposited. Such funds could be used to forestall rate increases and used to reduce rates.
2. **Advance Premium**—Returned premiums are deposited in this account when the Special Reserve contains funds in excess of its contractual limit. Such money could be used to delimit rate increases or reduce rates.
3. **Special Reserve**—This money is used to stabilize experience.

The Special Reserve earned interest at the rate of 8.5 percent for the portion of the reserve held prior to January 1, 1988 and interest at the rate of 7.75 percent on the balance.

FUNDS ON DEPOSIT

	Balance <u>6/30/88</u>	Balance <u>6/30/87</u>
Dividend Accumulation	\$ 0	\$ 0
Advance Premium	0	0
Special Reserve	464,969	691,766

**REPORT OF INDEPENDENT AUDITORS ON
REQUIRED SUPPLEMENTARY INFORMATION**

Board of Trustees
State of New Jersey
Public Employees' Retirement System

The analysis of funding progress and revenues by source and expenses by type of the State of New Jersey Public Employees' Retirement System are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Whinney

October 28, 1988

**REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS**

(in millions)

**STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

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

Plan Fiscal Year	(1) Net Assets Available For Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4)	(5) Annual Covered Payroll	(6)
				Unfunded Pension Benefit Obligation (2) - (1)		Unfunded Pension Obligation As A Percentage Of Covered Payroll (4) ÷ (5)
1986	4,264.0	4,180.2	102.0%	(83.8)	3,670.1	—
1987	5,000.7	5,379.2	93.0%	378.5	4,097.9	9.2%
1988	5,823.5	6,094.0	95.6%	270.5	4,485.0	6.0%

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

Information for the seven years prior to the year ended June 30, 1986 is unavailable.

REQUIRED SUPPLEMENTARY INFORMATION
 REVENUES BY SOURCE AND EXPENSES BY TYPE
 STATE OF NEW JERSEY
 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Revenues By Source

Plan Fiscal Year	Employer Contributions						Investment Revenue	Total
	Member Contributions	State	Percentage Of Annual Covered Compensation	Local	Percentage Of Annual Covered Compensation			
1979	\$ 84,568,028	\$ 51,740,892	2.73%	\$ 77,291,532	4.08%	\$119,542,489	\$	333,142,941
1980	89,216,557	49,319,091	2.37	87,615,417	4.21	142,502,124		368,653,189
1981	100,533,913	64,109,079	2.76	93,505,399	4.03	174,310,046		432,458,437
1982	120,462,618	68,199,660	2.64	115,314,112	4.47	222,273,185		526,249,575
1983	125,466,588	93,017,310	3.20	130,450,397	4.49	242,440,484		591,374,779
1984	133,854,283	105,579,827	3.34	142,728,211	4.51	291,481,165		673,643,486
1985	143,378,929	111,522,902	3.33	164,907,459	4.92	336,205,621		756,014,911
1986	163,182,225	111,995,151	3.05	165,297,236	4.50	411,972,803		852,447,415
1987	182,131,022	124,204,570	3.03	172,276,217	4.20	619,045,600		1,097,657,409
1988	199,595,206	137,200,192	3.06	171,467,943	3.82	599,733,718		1,107,997,059

Expenses By Type

Plan Fiscal Year	Benefits			Transfers To Other Retirement Systems	Total
	Retirement	Other	Withdrawals		
1979	\$ 83,340,363		\$15,844,596	\$ 1,685,409	\$100,870,368
1980	94,503,438		19,208,843	990,573	114,702,854
1981	106,848,520		19,666,224	2,412,408	128,927,152
1982	121,239,874		21,353,016	2,956,873	145,549,763
1983	136,718,406		18,390,739	3,322,167	158,431,312
1984	156,136,932	\$22,608,231	21,266,155	6,774,381	206,785,699
1985	176,393,956	26,162,303	25,384,001	6,134,326	234,074,586
1986	196,568,346	28,946,313	27,761,760	4,140,456	257,416,875
1987	216,983,863	26,348,897	29,761,617	34,325,293	307,419,670
1988	242,959,969	34,179,691	33,116,926	16,528,404	326,784,990

Contributions were made in accordance with actuarially determined contribution requirements.

Public Employees' Retirement System
State of New Jersey
CN 295
Trenton, N.J. 08625-0295