

PUBLIC EMPLOYEES'
RETIREMENT SYSTEM
OF
NEW JERSEY



1983
Annual Report

DEPARTMENT OF
THE TREASURY

DIVISION OF
PENSIONS

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

20 West Front Street
Trenton, New Jersey 08625

BOARD

GENEVIEVE F. McMENAMEN, Chairperson
KENNETH R. BIEDERMAN, State Treasurer, Custodian
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GEORGE B. BUCK
CONSULTING ACTUARIES, INC.

MEDICAL BOARD

WILLIAM COLEMAN, M.D. DAVID ECKSTEIN, 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 Employee's Retirement System is pleased to present its Twenty-ninth Annual Report in compliance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

GENEVIEVE F. McMENAMEN,
Chairperson

Annual Report

There were no major enactments involving the Public Employees' Retirement System in 1982.

Chapter 64 of the Laws of 1983 permitted certain persons to be exempt from membership prior to November, 1978. This legislation involved employees of a neighborhood health center where the employees had no clear status under Civil Service.

As a result of the annual election, Mrs. Genevieve F. McMenamen and David M. Russen, Jr., were elected to three-year terms commencing July 1, 1983.

MEMBERSHIP

A summary of the membership activity for the fiscal year ended June 30, 1983, follows:

27,289—enrollments
6,011—retirements
17,335—active accounts terminated through
separation from employment
749—deaths before retirement

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

<u>June 30</u>	<u>Active</u>	<u>Retirants 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
1983	223,245	44,667	267,912

Retirements by Type and Option July 1, 1982—June 30, 1983

<u>Service</u>	<u>Early</u>	<u>Deferred</u>	<u>Ordinary Disability</u>	<u>Accidental Disability</u>	<u>Veteran</u>	<u>Accidental Death</u>	<u>Active Death</u>
3,549	255	93	234	51	1,828	1	0
	<u>Maximum</u>	<u>Option I</u>	<u>Option II</u>	<u>Option III</u>	<u>Option IV</u>		
	2,836	1,701	982	474	18		

Retirement Payroll June 30, 1983

Regular Allowances—44,667 retirants and beneficiaries

Pension Adjustment Act—

Gross Payroll, month of June, 1983

Comparative data on 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	114,408,900*
1983	44,667	185,472,817*

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

Group Life Insurance Claims:

ACTIVE MEMBERS

<u>Number</u>	<u>Settlement</u>	<u>Amount</u>
700	Cash Lump Sum	\$27,163,173
	Reserve—Monthly	
3	Annuities	146,386
703	Total active member death claims	\$27,309,559

RETIRED MEMBERS

1,205	Regular Retirants (Death after age 60)—Lump Sum	\$ 2,345,388
46	Disability Retirants (Death before age 60)—Lump Sum	909,351
1,251	Total death claims—retirants	\$ 3,254,739
1,954	Total claims—active and retired members	\$30,564,298

Summary of Claim Charges

NONCONTRIBUTORY PLAN:

Active Members	703	\$13,903,702
Retirants	<u>1,251</u>	<u>2,345,388</u>
	1,954	\$16,249,090

CONTRIBUTORY PLAN:

Active Members	<u>13,259,471</u>	<u>\$29,508,561</u>
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Return of Contributions:

a) 17,335 members withdrew from the system and received a return of the pension contributions totaling	\$14,327,142
b) The survivors of 749 members who died before retirement received a return of the member's contributions totaling	\$ 4,063,590
c) Settlement of inactive accounts	\$ 261,034

Loans:

40,063 members applied for and received loans on their accounts totaling	\$54,415,340
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UNCLAIMED ACCOUNTS

Unclaimed accounts, June 30, 1982	\$ 1,037,341
Memberships discontinued and not settled during 1982-83.....	\$210,951
Memberships discontinued and settled in 1982-83.....	<u>169,362</u>
Added in fiscal year 1982-83.....	<u>380,313</u>
	<u>\$ 1,417,654</u>
Less:	
Cash settlements during fiscal year.....	\$327,210
Cash escheat to State Treasurer.....	47,501
Transferred to new accounts.....	<u>25,509</u>
	<u>400,220</u>
BALANCE, JUNE 30, 1983.....	<u>\$ 1,017,434</u>

Lists of the new additions during 1982-83 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.

INVESTMENTS

HOLDINGS: June 30, 1983	Per Value Shares	Book Value	Eff. Rate (%)	% by Type
Commercial Paper-Interest Based	\$ 7,900,000	\$ 7,900,000	8.73	0.3
Certificates of Deposit	2,300,000	2,300,000	9.14	0.1
U.S. Treasury Notes	850,000	833,844	8.53	
U.S. Treasury Bonds	9,150,000	9,422,949	6.61	0.3
Merchant Marine-Title IX Guar. Bds.	222,000	222,000	4.20	
Fed. National Mortgage Assn. Debs.	2,000,000	2,000,000	6.42	0.1
Fed. Housing Admin. Series MM.	3,700	3,310	6.72	
Fed. Housing Admin. Gen. Ins. Debs.				
Farmers' Home Admin. Insured Notes	1,117,144	1,117,144	6.57	
Industrial Bonds	131,413,832	130,239,731	7.45	4.3
Gas and Electric	196,579,000	195,882,434	5.91	6.4
Telephone	84,406,000	83,722,050	5.31	2.8
Water	1,650,000	1,650,000	4.80	0.1
Convertible Bonds				
Finance Company-Senior Debt	19,846,000	19,662,712	5.95	0.6
Railroad Equipment Obligations	883,885	883,885	7.68	
Inter-American Development Bank	2,000,000	1,994,316	5.61	0.1
Internat'l Bank Reconst. and Develop.	6,118,000	6,101,735	6.57	0.2
Government of Canada	1,500,000	1,498,578	6.90	
Provinces of Canada	11,310,000	11,262,827	7.01	0.4
Canadian Provincial Guaranteed	14,511,000	14,470,600	7.71	0.5
Municipals-General Obligation	232,000	228,828	3.03	
Municipals-Revenue	232,000	231,467	2.77	
FHA Single Family Mortgages	1,646,830	1,595,249	6.43	0.1
VA Single Family Mortgages	2,661,717	2,580,821	6.51	0.1
FHA Multi-Family Mortgages	8,765,167	7,752,146	7.03	0.3
GNMA Mortgage Backed Certificate	274,603,201	264,979,698	10.75	9.0
GNMA Mortgage Backed Certificate GPM.	12,260,185	11,821,256	9.89	0.4
Fed. Home Loan Mortgage Corp.-PC.	95,481,929	91,382,672	12.36	3.1
Capehart Mortgages	3,157,890	3,157,236	4.32	0.1
Conventional Mtge. Backed Certif.	5,286,507	4,877,916	11.88	0.2
State Leased Buildings	1,422,710	1,422,710	4.00	
Preferred Stock	1,073,696	1,073,696	8.03	
Convertible Preferred				
Units-Common Pension Fund A	721,802,525	721,802,525	4.38	23.6
Units-Common Pension Fund B	1,225,959,887	1,225,959,887	10.03	40.1
Units-Cash Management Fund	207,781,032	207,781,032	8.82	6.8
FUND TOTAL	\$3,056,127,837	\$3,037,815,254	8.13	100.0

PURCHASES

<u>Type</u>	<u>Par Value</u>	<u>Average Effective Rate</u>
<u>Long-Term</u>		
Mortgages	\$218,835,307	13.04
SUBTOTAL	<u>\$218,835,307</u>	<u>13.04</u>
<u>Short-Term</u>		
Commercial Paper	\$ 36,950,000	9.42
Time Certificates of Deposit	16,100,000	8.82
SUBTOTAL	<u>\$53,050,000</u>	<u>9.24</u>
<u>Stocks*</u>	<u>\$ 266,342¹</u>	
TOTAL PURCHASES	<u><u>\$272,151,649</u></u>	

SALES

<u>Long-Term</u>	
Corporate	\$ 42,926,000
Mortgages	205,544,792
SUBTOTAL	<u>\$248,470,792</u>
<u>Short-Term</u>	
None	<u>0</u>
SUBTOTAL	<u>0</u>
<u>Stocks*</u>	
Preferred Stock	<u>\$ 1,554,383</u>
SUBTOTAL	<u>\$ 1,554,383</u>
TOTAL SALES	<u><u>\$250,025,175</u></u>

*Book Value

¹Conversion from Preferred Stock to Common Stock

REDEMPTIONS AND PREPAYMENTS

<u>Type</u>	<u>Par Value</u>
U.S. Government Agencies	\$ 208,427
Industrials	1,197,083
Gas and Electric	23,000
Telephone	3,000
Canadians	436,000
Finance Companies—Senior Debt	40,000
Prepaid Mortgages	181,858
Merchant Marines	<u>32,000</u>
TOTAL REDEMPTIONS AND PREPAYMENTS	<u>\$ 2,111,368</u>

MATURITIES**\$77,443,910****EXCHANGES**

For the year ended June 30, 1983, the fund exchanged the following:

Bonds having a par value of \$50,396,006 for other bonds having a par value of \$50,409,412.

	<u>Number of units</u>	<u>Cost</u>
UNITS ACQUIRED IN COMMON PENSION FUND A		
Purchased	<u>89,195</u>	<u>\$133,798,998</u>
UNITS ACQUIRED IN COMMON PENSION FUND B		
By Distribution of Income	<u>364,690</u>	<u>\$240,386,971</u>
CASH MANAGEMENT FUND		
Purchased and Received by Distribution of Income		<u>\$790,482,196</u>
Withdrawn		<u>\$704,954,733</u>

STATEMENT OF ASSETS—JUNE 30, 1983

Ledger Assets

Cash in Banks	\$ (3,298,604)	
Investment Holdings	3,025,997,304	
Accrued Interest on Investments	43,346,756	
Loans Receivable—		
Retired Members	22,344	
Investment Holdings—Contr. Grp.		
Ins. Prem. Fund	10,265,560	
Employees' Contributions Receivable	14,271,476	
Loans to Members	67,823,826	
Local Employers' Contributions		
Receivable	129,654,273	
Local Expense Fund Receivable	4,345,656	
Receivable from Employers—		
Delayed Enrollments	1,067,843	
Dividend Receivable	9,083,563	
Pension Adjustment Receivable	3,724,217	
Accounts Receivable	29,740	
Total		\$3,306,333,954

Miscellaneous Liabilities

Pension Payroll Payable	\$ 11,402,604	
Pension Adjustment Payroll Payable	3,724,217	
Administrative Expense	4,360,229	
Contributory Group Insurance		
Premium Fund	10,355,719	
Unearned Interest on Loans	2,456,006	
Supplemental Annuity Collective		
Trust	3,177	
Canceled Checks	272,186	
Prepaid Appropriations	22,555	32,596,693

Net Ledger Assets, June 30, 1983

\$3,273,737,261

DISTRIBUTION OF ASSETS

Funds Derived from Members:

Annuity Savings Fund

State Employees—A.S.F.	\$246,679,863	
State Employees—		
Clearing Account	13,760,466	\$ 260,440,329
Local Employees—A.S.F.	\$426,283,857	
Local Employees—		
Clearing Acct.	28,552,455	454,836,312
Total Carried Forward		\$ 715,276,641

ASSETS (Continued)

Total Bought Forward		\$ 715,276,641	
Accumulative Int.—A.S.F.			
State Employees	\$ 76,321,652		
Local Employees	<u>116,951,363</u>	\$ 193,273,015	
Unclaimed Accounts		<u>1,017,433</u>	\$ 909,567,089
Funds Derived from Employers:			
Contingent Reserve Funds			
State Employees	\$358,274,643		
Local Employees	<u>802,055,703</u>	\$1,160,330,346	
Pension Adjustment Fund			
State Employees	\$ 7,391		
Local Employees	<u>18,333</u>	25,724	
Unclaimed Pension Adjustment Fund		<u>83,253</u>	1,160,439,323
Funds Derived from Members and Employers:			
Retirement Reserve Fund			
State Employees	\$487,506,277		
Local Employees	<u>685,834,825</u>	\$1,173,341,102	
Unclaimed Pension		<u>129,774</u>	1,173,470,876
Special Reserve Fund			<u>30,259,973</u>
Total Assets, June 30, 1983			<u><u>\$3,273,737,261</u></u>

STATEMENT OF REVENUE AND EXPENDITURES
JUNE 30, 1983

Ledger Assets, June 30, 1982

\$2,840,146,355

REVENUE

Pension Contributions:

Annuity Savings Fund

State	\$44,939,282	
Local	<u>80,423,494</u>	\$125,362,776

Accumulative Interest

State	\$ 6,000	
Local	<u>97,812</u>	103,812

Unclaimed Accounts

Employers' Contributions:

Contingent Reserve Fund:

State

Appropriation	\$75,532,689	
Delayed Enrollments	102,422	
N.C.G.I.P.F.-Payable	<u>17,382,200</u>	\$ 93,017,311

Local

Employers' Contributions	\$129,575,716	
Add'l Employer Contributions	79,671	
Delayed Enrollments	328,113	
Transfers from Other Systems	391,838	
Non-Contrib. Grp. Ins. Prem. Fd.	<u>75,060</u>	

130,450,398

Total Employers' Contribution to C.R.F.

\$223,467,709

Pension Adjustment Fund:

State	\$18,805,179	
Local	<u>23,060,227</u>	41,865,406

265,333,115

Retirement Benefits Redeposited:

Regular Allowances

State	\$ 227,200	
Local	<u>559,966</u>	\$ 787,166

Pension Adjustment Allowances

State	\$ 113,393	
Local	<u>174,951</u>	288,344

		29,835
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Unclaimed Pensions

Unclaimed Pension

Adjustment

Allowances

21,074	1,126,419
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Total Carried Forward

\$ 392,121,928

REVENUE (Continued)

Total Brought Forward			\$ 392,121,928
Gains-To Special Reserve Fund:			
On Prepayment of Mortgages	\$ 5,197		
On Bond Redemptions and Sales	16,371,785		
Gain on Stock Sales	<u>32,805</u>	16,409,787	
Income:			
Per Schedule		<u>242,555,984</u>	
TOTAL REVENUE			<u>\$ 651,087,699</u>
			<u>\$3,491,234,055</u>

EXPENDITURES

Benefits Provided by Members:				
Accumulated Contributions Withdrawn				
Regular Withdrawals				
State	\$ 4,689,940			
Local	<u>7,851,525</u>	\$ 12,541,465		
Active Deaths				
State	\$ 946,404			
Local	<u>2,242,388</u>	3,188,792		
Transfer to Other Systems				
State	\$ 531,397			
Local	<u>1,272,748</u>	1,804,145		
Net Overpayment				
Transferred			7	
Accumulative Interest Withdrawn				
Regular Withdrawals				
State	\$ 701,840			
Local	<u>1,083,837</u>	1,785,677		
Active Deaths				
State	\$ 296,019			
Local	<u>578,779</u>	874,798		
Transfers to Other Systems				
State	\$ 130,954			
Local	<u>261,033</u>	391,987		
Unclaimed Accounts			<u>374,712</u>	\$ 20,961,583
Total Carried Forward				<u>\$ 20,961,583</u>

EXPENDITURES (Cont'd)

Total Brought Forward			\$ 20,961,583
Benefits Provided by Members and Employers:			
<u>Retirement Allowances</u>			
State	\$55,486,280		
Local	<u>81,232,127</u>	\$136,718,407	
Unclaimed Pensions		<u>9,920</u>	136,728,327
Benefits Provided by Employers:			
<u>Pension Adjustment Allowances</u>			
State	\$18,913,387		
Local	<u>23,234,691</u>	\$42,148,078	
Contingent Reserve Fund			
State	\$ 97,588		
Local	<u>1,028,722</u>	1,126,310	
Unclaimed Pension Adjustment Allowances		<u>7,209</u>	43,281,597
Losses—To Special Reserve Fund:			
On Bond Redemptions and Sales		\$16,289,251	
On Stock Sales		<u>236,036</u>	16,525,287
Total Expenditures			<u>\$ 217,496,794</u>
Ledger Assets, June 30, 1983			<u>\$3,273,737,261</u>

ACTUARIAL EVALUATION

The information given below is taken from the valuation of March 31, 1982, 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:

Credited to fund	\$ 917,858,965	
Add accrued interest creditable	43,450,616	
Add reserve transferable from Contingent Reserve Fund	<u>22,924,632</u>	\$ 984,234,213

Annuity Savings Fund:

Credited to fund	\$ 758,734,162	
Add accrued interest creditable	<u>31,465,434</u>	790,199,596

Contingent Reserve Fund:

Credited to fund	\$ 918,414,188	
Add NGCIPF payable	24,410,247	
Add accrued interest creditable	40,780,320	
Add excess interest earnings creditable	45,077,399	
Deduct reserve transferable to Retirement Reserve Fund	<u>22,924,632</u>	1,005,757,522

Special Reserve Fund:

Credited to fund	\$ 24,239,728	
Add excess interest earnings creditable	<u>823,002</u>	25,062,730

Total Present Assets \$2,805,254,061

Present value of prospective contributions of members to be made to

Annuity Savings Fund \$1,045,613,312

Present value of prospective contributions payable by the State and local employers to the Contingent Reserve Fund as follows:

Future normal contributions	2,151,649,154	
Future accrued liability contributions	<u>203,475,020</u>	

Total Prospective Assets 3,400,737,486

TOTAL ASSETS \$6,205,991,547

LIABILITIES

Present value of benefits payable on account of beneficiaries or their dependents now drawing allowances from the Retirement Reserve Fund		\$ 984,234,213
Present value of benefits payable from contributions to the Annuity Savings Fund and the Contingent Reserve Funds:		
Service retirement allowances including early retirement and vesting benefits	\$4,079,203,849	
Ordinary disability retirement allowances	206,444,549	
Accidental disability retirement allowances	53,934,726	
Ordinary death benefits	489,469,906	
Accidental death benefits	5,862,151	
Return of members' contributions upon withdrawal before retirement	386,842,153	5,221,757,334
TOTAL LIABILITIES		<u>\$6,205,991,547</u>

LEVEL OF FUNDING

With respect to the funding of the system, the following is an excerpt from page 17 of the actuarial valuation as of March 31, 1982.

In conjunction with the current valuation, the level of funding of the system, as measured by the ratio of valuation assets to projected liabilities, has been determined as follows:

	<u>State</u>	<u>Local Employers</u>
A. Projected Accrued Liabilities	\$1,145,547,364	\$1,655,908,119
B. Adjusted Value of Assets	\$ 916,225,525	\$1,492,992,263
C. Funding Level B ÷ A	80.0%	90.2%

Projected accrued liabilities include the present value of benefits payable on account of beneficiaries or their dependents (liabilities of Retirement Reserve Fund) plus the present value of benefits accrued

to the valuation date for active members including salary projection. The adjusted value of assets reflects employer contributions receivable and other miscellaneous amounts.

The retirement system believes that misleading inferences concerning the system's funding status may result from a comparison of the actuarial present value of accumulated system's benefits with the fair value of net assets available for system benefits. This is because the system's assets have been accumulated by making contributions equal to the current year's costs determined on an ongoing basis, while the determination of the actuarial present value of accumulated system benefits required by FASB #35 and 36 has been made using methods and assumptions which are not the same as those used to determine the pension costs for the current year. For example, the required method for determining the actuarial present value of accumulated system benefits fails to take into consideration future wage and salary increases which have been considered by the Actuary and the retirement system in determining the costs of the system. Furthermore, the fair value of net assets for system benefits will fluctuate, which may create erroneous impressions with respect to the long term progress on funding the retirement system. The retirement system is concerned that, from an ongoing perspective, the financial statements pursuant to FASB #35 and 36 materially overstate the funded status of the system and can lead employers, on one hand, to believe that a cutback in appropriation for funding may be proper, while likewise lead employee organizations to recommend benefit liberalizations to be financed as a result of what appears to be a near-surplus financial position.

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. Though they are not assets of the system, a brief description of each deposit account, the opening balance at 7/1/81, and closing balance at 6/30/82 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—This money is where returned premiums are deposited 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 Dividend Accumulation account earned interest at the rate of 10.0 percent during the policy year, while the Special Reserve earned 8.75 percent for the period 7/1/81 to 12/31/81 and 10.0 percent for the period 1/1/82 to 6/30/82.

FUNDS ON DEPOSIT

	Balance <u>6/30/81</u>	Balance <u>6/30/82</u>
Dividend Accumulation	\$3,978,917	\$4,512,145
Advance Premium	0	160,905
Special Reserve	800,883	715,020

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