STATE OF NEW JERSEY TEACHER'S PENSION AND ANNUITY FUND

1990

Annual Report

STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
Douglas C. Berman, *Treasurer*

DIVISION OF PENSIONS
Margaret M. McMahon, *Director*

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

NEW JERSEY DIVISION OF PENSIONS
50 West State Street
CN 295
Trenton, New Jersey 08625-0295

To His Excellency
Jim Florio
Governor of the State of New Jersey

Dear Sir:

The board of trustees of the Teachers' Pension and Annuity is pleased to present the Seventy-First Annual Report in compliance with the provisions of N.J.S.A. 18A:66-59.

Respectfully submitted,

DOLORES MARSH
Chairperson

SIGNIFICANT LEGISLATION

CHAPTER 219, LAWS OF 1989 eliminates the taxation of pension income received by non-residents under the New Jersey gross income tax. This exclusion includes any retirement allowances made by the State-administered retirement systems. This law was approved on December 29, 1989 and effective retroactive to January 1, 1989.

CHAPTER 320, LAWS OF 1989 gives persons who are retired from public retirement systems of this or any other state and are elected to public office in the state the option of enrolling in the retirement system covering the elected office. To do so, the elected official must stop receiving his or her pension or retirement allowance and death benefits under the former system. This law was approved on January 12, 1990 with a retroactive effective date of January 1, 1987.

CHAPTER 328, LAWS OF 1989 permits the voluntary withholding of New Jersey Gross Income taxes from the pensions paid by private and public pension plans. The minimum amount to be withheld is $10.00 per month. This law was approved on January 12, 1990 to become effective on May 1, 1990.

CHAPTER 261, LAWS OF 1989 made many public and private employees in New Jersey eligible for a family leave from their employment without loss of employment status and with continuation of certain employment benefits. Administration and enforcement of the act is vested in the Division of Civil Rights in the Department of Law and Public Safety. The basic benefit provided by the Family Leave Act is that a covered employee is entitled to a family leave of 12 weeks in any 24-month period upon advance notice to the employer unless the employer denies the leave as authorized by law. Family leave is defined as a leave from employment to provide care made necessary by reason of birth or adoption of a child or the serious illness of a child, parent or spouse. This law was effective May 4, 1990.

CHAPTER 198, LAWS OF 1989 permits TPAF members on an approved leave of absence from their regular duties as teachers in order to serve as an officer of a local, county or state labor organization that represents teachers to receive service credit within the TPAF for such service. This law was approved and became effective on November 28, 1989.

CHAPTER 272, LAWS OF 1989 permits beneficiaries of certain TPAF members to elect either the death benefits of a death of an active member or the selected retirement benefits of a retired member. In order to qualify for the benefits under this law, the deceased member had to have more than 37 years of creditable service within the TPAF and died on or after the 24th day after he or she filed the application for retirement and two days before the effective date of retirement. This law was approved on January 8, 1990 with a retroactive effective date of November 1, 1988.

CHAPTER 98, LAWS OF 1989 required members of the Teachers' Pension and Annuity Fund serving as officers of a local, county or state labor organization while on an official leave of absence to pay contributions from December 1, 1989 until the leave expires and they return to regular teaching duties. All future members of an official leave of absence must continue to contribute to the retirement system based on the certain conditions.

While a member is on an approved leave of absence, he or she will be treated as an active member of the Teachers' Pension and Annuity Fund in all respects. Group life insurance coverage will still be in effect as well as State Health Benefits Program coverage, if applicable. The member will still be able to take a loan, withdraw from the system or retire.

The member is liable for payment of both the employee's and employer's share of the required pension contributions. The pension contributions due will be based on the member's rate of contribution and the employer's annual appropriation rate.

This law was effective December 1, 1989.

MEMBERSHIP
STANDARD RETIREMENT PAYROLL

The following information concerns the active and retired participation in the TPAF from its inception in 1920 to the present. Beginning with the 1989 Annual Report, total active and retired membership is reported using the latest actuarial valuation for purposes of consistency with the Audited Financial Statements also contained herein.

PERIOD ENDING	ACTIVE MEMBERS	RETIREES & BENEFICIARIES	TOTAL
June 30, 1920	6,092	581	6,673
June 30, 1925	18,508	1,008	19,516
June 30, 1930	25,550	1,347	26,897
June 30, 1935	26,651	2,097	28,748
June 30, 1940	29,328	2,557	31,885
June 30, 1945	30,572	3,286	33,858
June 30, 1950	32,082	4,211	36,923
June 30, 1955	39,612	5,318	44,930
June 30, 1960	57,515	8,083	65,598
June 30, 1965	74,608	12,503	87,111
June 30, 1970	98,558	14,532	113,090
June 30, 1975	109,634	19,888	129,522
June 30, 1980	111,987	24,839	136,826
June 30, 1985	109,153	29,021	138,174
March 31, 1988	111,514	34,169	145,683
March 31, 1989	113,535	34,635	148,170

STANDARD RETIREMENT PAYROLL
June 30, 1990

Regular Allowance (34,049 retirees & beneficiaries)	$26,591,987
Pension Adjustment Act	8,127,229
Part B Medicare Reimbursement Premiums	509,137
Gross Payroll, month of June 1990	$35,228,353

The following represents comparative data on the standard retirement payroll and average allowances for selected June 30 periods.

JUNE 30	NUMBER	PAYROLL (inc. Pension Adjustment Act)
1920	581	$ 409,605
1940	2,557	3,385,468
1950	4,211	6,089,106
1955	5,318	8,599,206
1960	8,083	17,867,652*
1965	12,503	35,779,826*
1970	14,532	48,953,885*
1975	19,888	93,546,957*
1980	24,839	169,018,512*
1985	29,021	269,257,406*
1989	32,942	379,664,667*
1990	34,049	413,240,772*

**includes benefits paid under the provisions of the Pension Adjustment Act*

GROUP LIFE INSURANCE CLAIMS (Cash Basis)

Active Members

Number	Settlement	Amount	
138	Cash Lump Sum Reserve	$17,648,443	
0	Monthly Annuities	0	
138	Total Active Member Death Claims		$17,648,443

Retired Members

Number	Settlement	Amount	
1,008	Regular Retirees (death after age 60)—Lump Sum	$ 6,531,768	
16	Disability Retirees (death before age 60)—Lump Sum	853,947	
1,024	Total Death Claims—Retirees		7,385,715
1,162	Total Claims—Active and Retired Members		$25,034,158

SUMMARY OF CLAIM CHARGES (Cash Basis)

Noncontributory Plan

Active Members	138	$ 8,044,786	
Retirees	1,024	4,211,236	
	1,162	$12,256,022	

Contributory Plan

Active Members	124	$ 9,603,657	
Retirees	684	3,174,479	$12,778,136
			$25,034,158

Return of Contributions

a) 2,858 members withdrew from the system and received a return of the pension contributions totaling	$ 6,964,185
b) The survivors of 139 members who died before retirement received a return of the members' contributions totaling	3,031,350
c) Settlement of inactive accounts	946,348
	$10,941,883

Loans

26,694 members applied for and received loans on their accounts totaling $86,718,770

UNCLAIMED ACCOUNTS

Unclaimed Accounts, June 30, 1989		$1,267,784
Memberships discontinued and not settled during 1989-90	$654,569	
Memberships discontinued and settled in 1989-90	37,636	
Added in fiscal year 1989-90		692,205
		1,959,989
LESS:		
Cash settlements during fiscal year	$110,886	
Cash escheat to State Treasurer	167,259	
Transferred to new accounts	2,725	280,870
BALANCE, JUNE 30, 1990		**$1,679,119**

List of the new additions during 1989-90 have been sent to all employing units with a request that they circulate copies among their members in an effort to ascertain the whereabouts of the listed former members and advise the Division of Pensions.

RETIREMENTS BY TYPE AND OPTION

July 1, 1989-June 30, 1990

Service	988
Early	458
Deferred	136
Ordinary Disability	78
Accidental Disability	3
Veteran	474
Accidental Death	0
Canceled	7
TOTAL	2,137

Maximum	1,115
Option 1	351
Option 2	391
Option 3	243
Option 4	37
TOTAL	2,137

REVISED VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE FUNDS OF THE TPAF

as of March 31, 1989

ASSETS		
PRESENT ASSETS OF SYSTEM CREDITABLE TO:		
Retirement Reserve Fund:		
Credited to fund	$3,701,061,547	
Add accrued interest creditable	187,084,591	
Add reserve transferable from Contingent Reserve Fund	(74,227,203)	$ 3,813,918,935
Pension Fund:		
Credited to fund	$ 4,905,702	
Add accrued interest creditable	274,153	
Deduct reserve transferable to CRF	(1,620,852)	3,559,003
Annuity Savings Fund:		
Credited to fund	$1,640,193,759	
Add accrued interest creditable	84,826,476	1,725,020,235
Contingent Reserve Fund:		
Credited to fund	$2,318,454,583	
Add accrued interest creditable	116,109,825	
Add reserve transferable from PF	1,620,852	
Add reserve transferable from RRF	74,227,203	
Add excess interest earnings transferable from SRF	32,291,116	2,542,703,579
Special Reserve Fund:		
Credited to fund	$ 74,932,725	
Add excess interest earnings creditable	37,162,683	
Deduct excess interest earnings transferable to Contingent Reserve Fund	(32,291,116)	79,804,292
Post-Retirement 401(h) Medical Fund		54,194,194
Contributory Group Insurance Premium Fund		43,951,276
TOTAL PRESENT ASSETS		**$ 8,263,151,514**
Present value of prospective contributions of members to be made to Annuity Savings Fund		$ 1,495,935,610
Present value of prospective contributions to the PF and the CRF including payments due 7/1/89:		
Normal Contributions		
Basic allowances with cost-of-living adjustments	$5,689,446,409	
Accrued liability contributions		
Basic allowances with cost-of-living adjustments	2,565,297,379	8,254,743,788
Present value of prospective contributions to the Post Retirement		

Medical Fund:		
Normal Contributions	$4,312,828,352	
Accrued liability contributions	573,419,325	4,886,247,677
TOTAL PROSPECTIVE ASSETS		$14,636,927,075
TOTAL ASSETS		$22,900,078,589

REVISED VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE FUNDS OF THE TPAF

as of March 31, 1989

LIABILITIES		
Present value of benefits payable on account of beneficiaries or their dependents now drawing allowances from the Retirement Reserve Fund:		
Service and early service benefits	$ 3,612,169,650	
Disability benefits	109,296,101	
Benefits to dependent beneficiaries	92,453,184	$ 3,813,918,935
Present value of benefits payable from contributions to the Annuity Savings Fund and the Contingent Reserve Fund:		
Service and early service benefits	$ 3,157,396	
Disability benefits	21,568	
Benefits to dependent beneficiaries	380,039	3,559,003
Present value of benefits payable to be paid by contributions to the Annuity Savings Fund and the Contingent Reserve Fund:		
Service retirement allowances including early retirement and vesting benefits	$10,630,073,121	
Ordinary disability retirement allowances	210,597,800	
Accidental disability retirement allowances	17,528,800	
Ordinary death benefits	516,142,583	
Accidental death benefits	6,899,000	
Return of members' contributions upon withdrawal before retirement	273,784,100	
Cost-of-living adjustments	2,443,182,100	14,098,207,504
Present value of medical premiums to be paid to the Retirement Medical Fund		4,940,441,871
Group insurance benefits to be paid from Contributory Group Insurance Premium Fund		43,951,276
TOTAL LIABILITIES		$22,900,078,589

CONTRIBUTORY INSURANCE

The board of trustees is authorized 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 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. **Special Reserve:** This money is used to stabilize experience.
3. **Insurance Continuance Fund:** This money is to pre-fund the cost of insurance on retired lives. Any dividends arising from the retired life experience are deposited here.
4. **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.

The Dividend Accumulation Account earned interest at the rate of 9.2% per annum during the policy year.

FUNDS ON DEPOSIT

	Balance 6/30/90	Balance 6/30/89
Dividend Accumulation	$2,878,184	$2,880,087
Special Reserve	—	—
Insurance Continuance	$ 0	$ 0
Advance Premium	$ 0	$ 0

ERNST & YOUNG
Suite 200 202 Carnegie Center
Princeton, New Jersey 08540

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
State of New Jersey
Teachers' Pension and Annuity Fund

We have audited the accompanying component unit financial statements of the State of New Jersey Teachers' Pension and Annuity Fund (Fund) as of and for the years ended June 30, 1990 and 1989. 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 component unit combined 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 component unit combined 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 Fund at June 30, 1990 and 1989, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

We have also previously audited, in accordance with generally accepted auditing standards, the balance sheets as of June 30, 1988, 1987 and 1986 and the related statements of revenues, expenses and changes in fund balances and changes in the financial position for each of the three years in the period ended June 30, 1988 (none of which are presented herein); and we expressed unqualified opinion on those component unit financial statements.

In our opinion, the information set forth in the required supplementary information for each of the three years in the period ended June 30, 1990 is fairly stated, in all material respects, in relation to the component unit financial statements from which it has been derived. With respect to such information for each of the five years in the period ended June 30, 1985, we have applied certain limited procedures which consisted of measurement and presentation of the supplementary information. However, we did not audit the information for each of the five years in the period ended June 30, 1985 and express no opinion on it.

Ernst & Young
October 15, 1990

BALANCE SHEETS
State of New Jersey
Teachers' Pension and Annuity Fund

	JUNE 30 1990	JUNE 30 1989
ASSETS		
Investments, at cost:		
Bonds (market value of $172,269,616 in 1990 and $189,096,457 in 1989)	$ 178,877,766	$ 201,032,621
Common Pension Fund A (market value of $5,299,131,492 in 1990 and $4,502,324,270 in 1989)	3,496,715,961	3,282,097,988
Common Pension Fund B (market value of $3,419,373,957 in 1990 and $3,298,351,159 in 1989)	3,406,927,129	3,215,168,983
Cash Management Fund (market value of $649,446,827 in 1990 and $231,051,617 in 1989)	659,446,826	231,051,617
Mortgages (market value of $1,484,610,635 in 1990 and $1,356,068,347 in 1989)	1,473,307,705	1,338,757,706
TOTAL INVESTMENTS	9,215,275,387	8,268,108,915
Receivables:		
Contributions:		
Members	48,063,522	43,072,704
Employers	276,339	95,006
Investments:		
Accrued interest	97,199,527	92,020,147
Dividends	38,534,134	32,956,677
Members' loans	136,741,732	128,494,264
Other	2,642,139	2,944,110
TOTAL RECEIVABLES	323,457,393	299,582,908
TOTAL ASSETS	$9,538,732,780	$8,567,691,823

See notes to financial statements.

BALANCE SHEETS
State of New Jersey
Teachers' Pension and Annuity Fund

	JUNE 30 1990	JUNE 30 1989
LIABILITIES AND FUND BALANCES		
Liabilities		
Retirement benefits payable	$ 35,529,197	$ 32,179,649
Death benefits payable	1,168,002	1,077,412
Cash overdraft	5,455,026	4,094,486
Payable for investments purchased	17,449,531	25,806,282
Accounts payable and accrued expenses	5,724,480	5,816,485
TOTAL LIABILITIES	65,326,236	68,974,314
Fund Balances:		
Members' annuity savings fund and accumulative interest	1,964,136,151	1,782,315,833
Contingent reserve fund	3,329,958,726	2,743,124,446
Retirement reserve fund	4,037,693,768	3,846,272,712
Special reserve fund	91,695,469	82,283,579
Contributory group insurance premium reserve fund	49,922,430	44,720,939
Other fund	0	0
TOTAL FUND BALANCES	9,473,406,544	8,498,717,509
TOTAL LIABILITIES & FUND BALANCES	$9,538,732,780	$8,567,691,823

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND BALANCES

State of New Jersey Teachers' Pension and Annuity Fund

	FUND BALANCES		
	Members' ASF & Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund
REVENUES			
Contributions:			
Members	$ 160,225,587		
Employers		$ 524,372,216	
Investment revenue	110,730,973	389,851,288	$ 259,405,217
Other			
TOTAL REVENUES	270,956,560	914,223,504	259,405,217
EXPENSES			
Benefit payments			321,810,038
Cost-of-living adjustment			93,729,102
Withdrawals	10,941,882		
Noncontributory group insurance death benefits		12,702,800	
Administrative expense		8,486,968	
Post-retirement medical benefits and other	7,962	36,830,875	
TOTAL EXPENSES	10,949,844	58,020,643	415,539,140
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	260,006,716	856,202,861	(156,133,923)
Transfers between funds for:			
Retirement by members	(78,234,808)	(271,596,623)	349,831,431
Other	48,410	2,228,042	(2,276,452)
Fund balances at beginning of year	1,782,315,833	2,743,124,446	3,846,272,712
FUND BALANCES AT END OF YEAR	$1,964,136,151	$3,329,958,726	$4,037,693,768

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES & CHANGES IN FUND BALANCES

State of New Jersey Teachers' Pension and Annuity Fund

FUND BALANCES			TOTALS	
			Year Ended June 30	
Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund	1990	1989
	$14,835,805		$ 175,061,392	$ 161,869,423
			524,372,216	469,268,698
$ 9,411,890	3,711,174		773,110,542	733,379,429
		$57,283	57,283	76,122
9,411,890	18,546,979	57,283	1,472,601,433	1,354,593,672
			321,810,038	291,686,199
			93,729,102	87,902,346
			10,941,882	12,040,963
			12,702,800	15,251,763
			8,486,968	
	13,345,488	57,283	50,241,608	56,859,884
0	13,345,488	57,283	497,912,398	463,741,155
9,411,890	5,201,491	0	974,689,035	900,852,517
			0	0
			0	0
82,283,579	44,720,939	0	8,498,717,509	7,597,864,992
$91,695,469	$49,922,430	0	$9,473,406,544	$8,498,717,509

STATEMENTS OF CHANGES IN FINANCIAL POSITION

State of New Jersey
Teachers' Pension and Annuity Fund

	JUNE 30 1990	JUNE 30 1989
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	$ 974,689,035	$ 900,852,517
Items not requiring (providing) financial resources:		
Accretion and amortization—net	(4,829,260)	(4,211,919)
Net (gain) loss on sales and maturities of long-term investments	(1,626,114)	2,363,807
Net realized gain on Common Pension funds A and B	(104,611,795)	(159,559,783)
	863,621,866	739,444,622
Proceeds from sales and maturities of long-term investments	336,732,975	241,099,145
Decrease in Cash Management Fund		26,158,994
Decrease in other receivables	301,971	16,601,014
Increase in retirement benefits payable	3,349,548	2,585,129
Decrease (increase) in accounts payable and accrued expenses	(92,005)	2,196,005
TOTAL SOURCES OF FINANCIAL RESOURCES	1,203,914,355	1,028,084,909
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	744,437,069	838,989,521
Increase in Cash Management Fund	428,395,209	
Increase in contributions receivable	5,172,151	4,641,997
Increase in accrued investment income	10,756,837	13,667,250
Increase in member loans	8,247,468	12,327,798
Decrease (increase) in death benefits payable	(90,590)	303,059
Decrease in payable for investments purchased	8,356,751	38,699,357
Decrease in due to general fund		118,792,559
TOTAL USES OF FINANCIAL RESOURCES	1,205,274,895	1,027,421,541
(DECREASE) INCREASE IN CASH	(1,360,540)	663,368
Cash overdraft, beginning of year	(4,094,486)	(4,757,854)
CASH OVERDRAFT, END OF YEAR	($ 5,455,026)	($ 4,094,486)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
State of New Jersey
Teachers' Pension and Annuity Fund
June 30, 1990

NOTE A—Significant Accounting Policies

The financial statements of the Teachers' Pension and Annuity Fund (Fund) 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 Governmental 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 long-term 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 $119,109,416; consisting of $105,968,700 in Common Pension Fund A and $13,140,716 in Common Pension Fund B at June 30, 1990.

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 amortization of premiums or accretion of discounts over the life of the loans.

Purchases and sales of investments are accounted for 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 are recognized when earned.

Administrative Expenses: The System is administered by the State of New Jersey Division of Pensions. Legislation passed during the year ended June 30, 1990 requires administrative expenses to be paid by the Fund and included in the normal cost of future employer contributions. Such costs for the year ended June 30, 1990 amounted to $8,486,968. Prior to July 1, 1990, the System's assets available for paying benefits were not reduced for administrative expenses as all such expenses were allocated to the various State and State-related (local governmental agencies) employers who were responsible for such cost.

NOTE B—Description of the Fund

Organization: The Fund is a single-employer contributory defined benefit plan which was established in January 1, 1955 under the provisions of NJSA 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 funds in the general purpose financial statement of the State.

The Fund's designated purpose is to provide retirement benefits, medical benefits for qualified retirees (which are subordinate to the retirement benefits) and other benefits to its 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 that have titles that are unclassified, professional and certified. The Fund's Board of Trustees which is responsible for its organization and administration.

Cumulative membership in the Fund as of March 31, 1989, 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	34,635
Active members:	
Vested	72,793
Non-Vested	40,742
TOTAL ACTIVE MEMBERS	113,535

Loans Receivable: The Fund provides for member loans up to 50% of each members' accumulated contributions. To obtain a loan, a member must have three years of contributions made to the members' annuity 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.

Vesting and Benefit Provisions: The vesting and benefits provisions are set by NJSA 43:15A and 43:3B. The Fund provides retirement as well as disability benefits. All benefits vest after 10 years of creditable service. Retirement benefits for age and service are available beginning at age 60 and are generally determined as a percentage of final average salary. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' salary if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving 10 years of service in which case benefits would begin on the first day of the month after the member attains the normal retirement age.

The Fund provides medical benefits for members who retire after 25 years of qualified service or under the disability provisions of the Fund.

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

Information about the Fund, including additional vesting and benefit provisions, is available from the 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 Fund discussed in Note D.

The pension benefit obligation was determined as part of each plan's most recent actuarial valuation dated March 31, 1989. The liability was determined as of March 31 and projected forward to June 30, 1989 allowing for increases in benefits and variations in the population during the 3-month period.

The projected pension benefit obligation as of June 30, 1989 was:

	Pension Benefit Obligation in 000s	Post-Retirement Medical Benefit Obligation in 000s
Benefit Obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 3,638,960	$ 598,790
Current Employees:		
Accumulated employees' contributions with interest	1,782,320	
Employer-financed—vested	6,396,800	2,450,560
Employer-financed—non-vested	315,980	284,230
Total benefit obligations including cost-of-living adjustments	12,134,060	3,333,580
Net assets (fund balance available for benefits at book value (market value of net assets available for pension benefits amounts to $10,314,753)	8,967,112	54,194
Unfunded benefit obligations	$ 3,166,948	$3,279,386

These obligations were calculated based on actuarial assumptions of

a) a 7 3/4% discount rate compounded annually;
b) salary increases ranging from 7.83% at age 25 to 3.6% at age 70 which include inflation, merit and productivity;
c) assets valued at cost or amortized cost;
d) 2 1/4% increase in cost-of-living benefit provision compared to 3% used in the prior year's calculation;
e) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary; and
f) medical premiums increases of 10% for the next eight years and 6.875% thereafter.

The pension benefit obligation decreases approximately $718,000,000 as a result of the change in the assumed rate for cost-of-living benefits.

NOTE D—Contribution Policy

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

Total contributions for the year ended June 30, 1990 were $684,597,803 ($524,372,216 from the State, $160,225,587 from members or 13.6% and 4.5%, respectively, of annual covered compensation) of which $287,093,342 represented the recommended normal contribution amount and $233,053,037 related to the accrued liability funding. The current year State contributions are based on the 1988 actuarial valuation.

In accordance with the provisions of Chapter 384, PL 1987, contributions of the State consist of a normal contribution and an accrued liability contribution determined by a qualified actuary. Beginning in the 1989 plan year, the State was required to make contributions for qualified retirees towards the payment of cost-of-living adjustments and cost of medical premiums after retirement. The Fund's actuary uses the "entry age normal cost method with frozen initial unfunded accrued liability" to determine normal costs which were determined to be $340,961,351 as of March 31, 1989. 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 the same date, the actuary computed that utilizing the present method of funding, the present value of the unfunded frozen actuarial accrued liability for basic allowances and cost-of-living adjustments was $2,565,297,379 to be funded over a 31-year period as of July 1, 1989. Additional unfunded frozen actuarial accrued liabilities for post-retirement medical premiums for qualified retirees at present value were $573,419,325 and these amounts will also be funded over a 32-year period as of July 1, 1989.

The annual interest assumption was 6 7/8% in 1989 and 1988. This rate differs from the rate used to compute the standardized measure of the benefit obligation discussed in Note C which was 7 3/4% in 1989 and 1988. Other significant assumptions were the same except that future salary increases are based on salary scales that are 1 1/4% lower than the pension benefit obligation calculation.

NOTE E—Description of Fund Balances

Members' Annuity Savings Fund and Accumulative Interest: The Members' Annuity Savings Fund (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 6 7/8% for the years ended June 30, 1990 and 1989. 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, if applicable, are transferred to the Retirement Reserve Fund for subsequent payment of benefits.

Upon death or withdrawal from active service prior to qualifying for retirement, accumulated contributions plus applicable interest are paid from the Members' Annuity Savings Fund (ASF).

Contingent Reserve Fund: The Contingent Reserve Fund is credited with the contributions of the State. Additionally, realized investment earnings, after crediting the ASF and the Retirement Reserve Fund, 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.

Each year, the amounts necessary, as determined by actuaries, 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, PL 1987 and Chapter 384, PL 1987 provide that pension adjustment (cost-of-living) benefits and health care benefits for qualified retirees shall be funded through the Contingent Reserve Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits are paid, including cost-of-living and health care benefit adjustments for certain retirees are paid. Upon retirement of a member, accumulated contributions together with accumulated interest are transferred

to the Retirement Reserve Fund from the ASF and a reserve needed to fund the retirement benefit is transferred from the Contingent Reserve Fund. Annually, interest, as determined by the State Treasurer (6 7/8% for 1990 and 1989), 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 the advice of 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. This fund is limited to 1% of the book value of the investments allocated to the Fund, excluding cash management fund investments allocated to the Contributory Group Insurance Premium Fund which amounted to $45,728,500 at June 30, 1990. 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 benefits plus reserves held by the insurance carrier.

Members are required by statute to participate in the Contributory Group Insurance Premium Fund in their 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.

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

GASB Statement No. 3 requires disclosure of the level of investment risk assumed by the Fund at June 30, 1990. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or their agency in the System's name. Category 2 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 System's names. 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 System's name. As of June 30, 1990, all investments held by the Fund are classified as Category 1.

Federal securities, including federal securities held as collateral on repurchase agreements, 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 custodial banks in trust for the Fund. The custodian banks, as agents for the Fund, maintain internal accounting records identifying the securities owned by 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 unconditional rights to the securities.

A summary of investments as of June 30, 1990 and the market value by major class were as follows:

	Book Value in 000s	Market Value in 000s
Bonds:		
U.S. and Municipal Government bonds	$ 5,780	$ 5,919
Industrial bonds	3,823	3,702
Telephone bonds	15,294	13,775
Gas, electric and water bonds	85,303	80,185
Finance companies—senior debt	6,883	6,789
Railroad equipment obligations	1,470	1,430
Other	60,325	60,270
SUBTOTAL	$ 178,878	$ 172,270
Common Pension Fund A	3,496,716	5,299,131
Common Pension Fund B	3,406,927	3,419,374
State of New Jersey Cash Management Fund	659,446	659,446
Mortgages	1,473,308	1,484,611
TOTAL	$9,215,275	$11,034,832

Investments in excess of 5% of net assets are:

	June 30, 1990 in 000s	June 30, 1989 in 000s
Common Pension Fund A	$3,496,716	$3,282,098
Common Pension Fund B	3,406,927	3,215,169
State of New Jersey Cash Management Fund	659,446	

NOTE G—Income Tax Status

Based on a declaration of the Attorney General of the State of New Jersey, the retirement systems are qualified plans as described in Section 401(a) of the Internal Revenue Code.

NOTE H—Historical Trend Information

Historical trend information designed to provide information about the Systems' progress made in accumulating sufficient assets to pay benefits when due is presented as "Required Supplementary Information."

NOTE I—Subsequent Event

At June 30, 1990, the System had approximately $1,802,415,000 of net unrealized appreciation (market value in excess of carrying value) in Common Pension Fund A. Subsequent to June 30, 1990, the stock market experienced significant volatility and decline in value.

As of October 15, 1990, the net unrealized appreciation in Common Pension Fund A at June 30, 1990 decreased $917,144,000 to $885,271,000. The effect on the market value of the remaining securities held at June 30, 1990 was immaterial.

Retirement benefits payable to the Plan participating are set by State formulas which are not affected by the market value of pension fund assets. Furthermore, management believes the current decline in market value will not have an adverse effect on future contributions as actuarial valuations are based on the carrying value of investments.

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
(in millions)

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

Pension Benefit Obligations

Plan Fiscal Year	(1) Net Assets Available for Benefits	(2) Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Benefit Obligation (2)–(1)	(5) Annual Covered Payroll	(6) Unfunded Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1986	$5,033.3	$ 5,174.8	97.3%	$ 141.5	$2,763.9	5.1%
1987	5,840.4	6,831.0	85.5	990.6	3,011.7	32.9
1988	7,144.9	10,522.5	67.9	3,377.6	3,241.9	104.2
1989	8,175.5	11,654.9	70.1	3,479.4	3,536.9	98.4
1990	8,967.1	12,134.1	73.9	3,167.0	3,857.3	82.1

Post-Retirement Medical Premiums Obligation

Plan Fiscal Year	Net Assets Available for Benefits	Benefit Obligation	Percentage Funded	Unfunded Benefit Obligation
1988	0	$2,306.4	0	$2,306.4
1989	0	2,200.7	0	2,200.7
1990	$54.2	3,333.5	2%	3,279.3

Analysis of the dollar amounts of net assets available for benefits, benefit obligation and unfunded benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the 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 the percentage, the stronger the System. Trends in unfunded benefit obligation 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 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 five years prior to the year ended June 30, 1985 is unavailable.

Note—Beginning in 1989, the pension benefit obligation reflects the impact of funding cost-of-living adjustments and, accordingly, amounts related to fiscal 1989 have been revalued. Also in 1989, the System began funding the post-retirement medical premiums. (See Note B to the financial statements.)

REQUIRED SUPPLEMENTARY INFORMATION
REVENUES BY SOURCE AND EXPENSES BY TYPE

(Unaudited for each of the five years in the period ended June 30, 1985.)

REVENUES BY SOURCE

Plan Fiscal Year	Member Contributions	Employer Contributions	% of Annual Covered Compensation	Investment Revenue	Total
1981	$ 76,059,228	$151,175,004	7.68%	$229,950,979	$ 457,185,211
1982	79,281,519	205,247,825	9.76	285,534,902	570,064,246
1983	85,755,631	235,805,262	10.52	299,442,076	621,002,969
1984	91,170,531	253,395,280	10.54	346,760,249	691,326,060
1985	98,561,518	280,652,017	10.97	397,087,025	776,300,560
1986	110,656,183	299,499,600	10.84	466,831,691	876,987,474
1987	126,885,089	321,560,276	10.68	716,836,949	1,165,282,314
1988	135,126,715	359,773,275	11.10	722,967,594	1,217,867,584
1989	148,105,445	469,268,698	13.30	729,876,912	1,347,251,055
1990	160,225,587	524,372,216	13.60	769,399,368	1,453,997,171

EXPENSES BY TYPE

Plan Fiscal Year	Benefits		Withdrawals & Adm.	Transfers to Other Ret. Systems	Total
	Retirement	Other*			
1981	$140,422,656		$12,490,103	$ 109,987	$153,022,746
1982	152,207,949		11,819,619	730,413	164,757,981
1983	162,925,554		9,440,484	81,261	172,447,299
1984	178,051,923	$ 8,525,832	10,376,442	82,792	197,036,989
1985	196,536,957	12,850,904	10,710,202	44,005	220,142,068
1986	215,594,634	95,742,508	10,345,403	56,592	321,739,137
1987	238,359,609	96,745,440	10,539,838	658,505	346,303,392
1988	265,731,642	128,723,615	8,523,838	686,187	403,665,272
1989	291,686,199	139,799,116	11,098,406	1,550,441	444,134,162
1990	321,810,038	141,702,261	19,428,850	2,065,428	485,006,577

Contributions were made in accordance with actuarially determined requirements.

**Other benefits include cost-of-living adjustments and medical benefits for certain eligible retirees beginning in fiscal 1986 and 1990, respectively. See notes to financial statements.*

Division of Pensions
Teachers' Pension and Annuity Fund
State of New Jersey
CN 295
Trenton, N.J. 08625-0295