

901/104

PUBLIC EMPLOYEES'
RETIREMENT SYSTEM
OF
NEW JERSEY



1984
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
MICHAEL M. HORN, State Treasurer, Custodian
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Consulting Actuaries, Inc.

MEDICAL BOARD

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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 the Thirtieth Annual Report in compliance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

GENEVIEVE F. McMENAMEN,
Chairperson

Annual Report

Chapter 316, P.L. 1983, permits a multiple enrollee in the Public Employees' Retirement System, holding an elected public office as one of the multiple positions, to retire on the basis of the other public service and receive retirement benefits thereunder while continuing to hold the elected public office; provided that, no salary is received subsequent to retirement for the elected office. This law became effective on August 29, 1983.

Chapter 96, P.L. 1984 permits, under certain specified circumstances, a designated beneficiary of a deceased member of the Public Employees' Retirement System to elect the option selected by the deceased member or option 3 if no selection was made; or such beneficiary can elect the death benefits payable to an active member if the member died before the effective date of retirement. The conditions to be met under this law dictates that the retirement application must have been actually received by the Division of Pensions at least thirty days prior to the death; the deceased member had terminated public employment at least one day prior to the effective date of retirement; and the surviving beneficiary requests in writing that the board of trustees approve the selection made.

As a result of the annual election, Suzanna Buriani-DeSantis and William P. Gervasi, were elected to three-year terms commencing July 1, 1984.

MEMBERSHIP

A summary of the membership activity for the fiscal year ended June 30, 1984, follows:

29,125—enrollments
4,815—retirements
19,072—active accounts terminated through
separation from employment
834—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
1984	227,649	47,838	275,487

Retirements by Type and Option July 1, 1983—June 30, 1984

<u>Service</u>	<u>Early</u>	<u>Deferred</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Veteran</u>	<u>Accidental Death</u>	<u>Active Death</u>
2,550	55	115	14	150	1,559	4	0
	<u>Maximum</u>	<u>Option I</u>	<u>Option II</u>	<u>Option III</u>	<u>Option IV</u>		
	2,220	1,265	730	402	22		

Retirement Payroll June 30, 1984

Regular Allowance—47,838 retirants and beneficiaries

Pension Adjustment Act—

Gross Payroll, month of June, 1984 \$ 16,869,007

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	144,408,900*
1984	47,838	193,263,940*

*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>
750	Cash Lump Sum	\$34,381,983
	Reserve—Monthly	
<u>4</u>	Annuities	<u>141,074</u>
754	Total active member death claims	\$34,523,057

Retired Members

1,511	Regular Retirants (Death after age 60)—Lump Sum	\$ 2,934,675
51	Disability Retirants (Death before age 60)—Lump Sum	<u>1,078,966</u>
1,562	Total death claims—retirants	<u>\$ 4,013,641</u>
<u>1,316</u>	Total claims—active and retired members	<u>\$38,536,641</u>

SUMMARY OF CLAIM CHARGES

Noncontributory Plan:

Active Members	754	\$17,863,447
Retirants	<u>1,562</u>	<u>4,013,641</u>
	2,316	\$21,877,088

Contributory Plan:

Active Members	<u>\$16,659,610</u>	<u>\$38,536,698</u>
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Return of Contributions:

a) 13,431 members withdrew from the system and received a return of the pension contributions totaling	\$15,620,739
b) The survivors of 834 members who died before retirement received a return of the member's contributions totaling	\$ 5,645,415
c) Settlement of inactive accounts	322,292

Loans:

45,080 members applied for and received loans on their accounts totaling	\$65,588,495
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UNCLAIMED ACCOUNTS

Unclaimed accounts, June 30, 1983	\$ 1,017,434
Memberships discontinued and not settled during 1983-84	\$ 27,353
Memberships discontinued and settled in 1983-84	<u>120,574</u>
Added in fiscal year 1983-84	<u>147,927</u>
	<u>\$ 1,165,361</u>

Less:

Cash settlements during fiscal year	\$201,311
Cash escheat to State Treasurer	119,305
Transferred to new accounts	<u>14,346</u>
	<u>334,962</u>

BALANCE, JUNE 30, 1984	<u>\$ 830,399</u>
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Lists of the new additions during 1983-84 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, 1984	Per Value Shares	Book Value	Eff. Rate (%)	% by Type
Commercial Paper-Interest Based	\$ 5,900,000	\$ 5,900,000	10.69	0.2
Certificates of Deposit	11,600,000	11,600,000	10.85	0.3
U.S. Treasury Notes	600,000	588,769	8.98	
U.S. Treasury Bonds	10,966,000	11,164,826	7.21	0.3
Merchant Marine-Title IX Guar. Bds.				
Fed. Home Loan Mort. Corp. CMO	10,000,000	9,862,225	12.09	0.3
Fed. National Mort. Assn. Debs.	2,000,000	2,000,000	16.42	0.1
Fed. Housing Admin. Series MM.	3,700	3,371	6.72	
Farmers' Home Admin. Insured Notes	1,000,976	1,000,976	6.56	
Industrial Bonds	127,676,253	126,497,094	7.41	3.6
Gas and Electric	180,136,000	176,453,425	6.06	5.1
Telephone	93,726,000	92,917,425	5.41	2.6
Water	1,650,000	1,650,000	4.80	
Finance Company-Senior Debt	18,098,000	17,985,327	5.99	0.5
Railroad Equipment Obligations	750,667	750,667	7.71	
Inter-American Development Bank	2,000,000	1,996,141	5.61	0.1
Internat'l Bank Reconst. and Develop.	6,118,000	6,102,764	6.57	0.2
Government of Canada	1,500,000	1,498,809	6.90	
Provinces of Canada	9,865,000	9,821,967	7.33	0.3
Canadian Provincial Guaranteed	14,095,000	14,470,600	7.71	0.5
Municipals-General Obligation	186,000	183,824	2.96	
Municipals-Revenue	18,000	17,632	3.32	
FHA Single Family Mortgages	1,484,560	1,438,332	6.45	
VA Single Family Mortgages	2,425,101	2,351,666	6.52	0.1
FHA Multi-Family Mortgages	5,439,788	5,074,452	7.01	0.2
GNMA Mortgage Backed Certificate	267,909,719	258,775,561	10.76	7.6
GNMA MINI	17,437,920	16,300,554	11.57	0.5
GNMA II	61,024,621	58,000,848	12.89	1.7
GNMA Mortgage Backed Certificate GPM	12,069,589	11,637,915	9.89	0.3
Fed. Home Loan Mortgage Corp.-PC.	105,307,613	100,235,298	12.47	3.0
Capehart Mortgages	2,059,192	2,060,310	4.33	0.1
Conventional Mtge. Backed Certif.	4,988,654	4,603,083	11.88	0.1
State Leased Buildings	806,095	806,075	4.00	
Units-Common Pension Fund A	935,651,838	935,651,838	5.04	26.4
Units-Common Pension Fund B	1,450,054,836	1,450,054,836	10.45	40.9
Units-Cash Management Fund	176,534,897	176,534,897	10.53	5.1
FUND TOTAL	\$3,541,084,019	\$3,518,579,181	8.61	100.0

PURCHASES

<u>Type</u>	<u>Par Value</u>	<u>Average Effective Rate</u>
Long-Term		
U.S. Government	\$ 10,000,000	12.09
Agencies Mortgages		
SUBTOTAL	\$135,500,726	12.72
Short-Term		
Commercial Paper	\$ 67,400,000	9.54
Time Certificates of Deposit	16,100,000	8.82
Bankers Acceptance	8,000,000	9.18
SUBTOTAL	\$100,500,000	9.75
Stock*		
<u>TOTAL PURCHASES</u>	<u>\$236,000,726</u>	<u>11.43</u>

SALES

Long-Term	
Mortgages	25,926,529
SUBTOTAL	\$ 25,926,529
Short-Term	
None	0
SUBTOTAL	0
Stock*	
Preferred Stock	\$ 1,073,696
SUBTOTAL	\$ 1,073,696
<u>TOTAL SALES</u>	<u>\$ 27,000,225</u>

*Book Value

REDEMPTIONS AND PREPAYMENTS

Type	Par Value
Industrials	\$ 1,100,584
Gas and Electric	26,000
Telephone	3,000
Canadians	436,000
Finance Companies—Senior Debt	210,567
Prepaid Mortgages	116,168
Merchant Marines	2,000
TOTAL REDEMPTIONS AND PREPAYMENTS	\$ 2,116,319
<u>MATURITIES</u>	<u>\$128,681,522</u>

EXCHANGES

For the year ended June 30, 1984, the fund exchanged the following:

Bonds having a par value of \$58,199,996 for other bonds having a par value of \$28,241,818.

	<u>Number of units</u>	<u>Cost</u>
<u>UNITS ACQUIRED IN COMMON PENSION FUND A</u>		
Purchased	<u>129,420</u>	<u>\$213,849,312</u>
<u>UNITS ACQUIRED IN COMMON PENSION FUND B</u>		
By Distribution of Income	<u>350,462</u>	<u>\$224,094,949</u>
<u>CASH MANAGEMENT FUND</u>		
Purchased and Received by Distribution of Income		<u>\$681,708,328</u>
Withdrawn		<u>\$704,954,733</u>

STATEMENT OF ASSETS—JUNE 30, 1984

Ledger Assets

Cash in Banks (Book Value)	\$ 3,969,696	
Investment Holdings	3,501,068,070	
Accrued Interest on Investments	51,034,639	
Loans Receivable—		
Retired Members	33,317	
Investment Holdings—Contr. Grp.		
Ins. Prem. Fund	16,337,250	
Employees' Contributions Receivable	17,835,291	
Loans to Members	80,233,652	
Local Employers' Contributions		
Receivable	91,140,963	
Local Expense Fund Receivable	3,419,869	
Receivable from Employers—		
Delayed Enrollments	1,078,043	
Dividend Receivable	13,445,599	
Pension Adjustment Receivable	3,901,111	
Accounts Receivable	28,076	
Total Assets		\$3,783,525,576

Miscellaneous Liabilities

Pension Payroll Payable	\$ 12,963,140	
Pension Adjustment Payroll Payable	12,963,140	
Administrative Expense	5,377,024	
Contributory Group Insurance		
Premium Fund	16,393,736	
Unearned Interest on Loans	2,982,636	
Supplemental Annuity Collective		
Trust	1,860	
Canceled Checks	340,364	
Escrow Items	267,841	
		<u>42,227,712</u>

Net Ledger Assets, June 30, 1984

\$3,741,297,864

DISTRIBUTION OF ASSETS

Funds Derived from Members Contributions:

Annuity Savings Fund		
State Employees—A.S.F.	\$269,671,447	
State Employees—		
Clearing Account	17,607,842	\$286,279,289
Local Employees—A.S.F.	\$471,066,859	
Local Employees—		
Clearing Acct.	31,672,880	502,739,739
Total Carried Forward		<u>\$790,019,028</u>

ASSETS (Continued)

Total Brought Forward		\$ 790,019,028	
Accumulative Int.—A.S.F.			
State Employees	95,628,667		
Local Employees	<u>132,070,284</u>	\$ 227,698,951	
Unclaimed Accounts		<u>830,398</u>	\$1,018,548,377
Funds Derived from Employers Contributions:			
Contingent Reserve Funds			
State Employees	\$423,749,684		
Local Employees	<u>901,978,873</u>	\$1,325,728,507	
Pension Adjustment Fund			
State Employees	\$ 18,286		
Local Employees	<u>24,653</u>	25,724	
Unclaimed Pension Adjustment Fund		<u>123,488</u>	1,325,894,934
Funds Derived from Members and Employers Contributions:			
Retirement Reserve Fund			
State Employees	\$559,715,169		
Local Employees	<u>801,951,451</u>	\$1,361,666,620	
Unclaimed Pension		<u>177,252</u>	1,361,843,872
Special Reserve Fund			<u>35,010,681</u>
<u>Total Net Assets, June 30, 1984</u>			<u>\$3,741,297,864</u>

STATEMENT OF REVENUE AND EXPENDITURES
JUNE 30, 1984

Ledger Assets, June 30, 1983

\$2,273,737,261

<u>REVENUE</u>			
Pension Contributions:			
Annuity Savings Fund			
State	\$ 47,491,152		
Local	86,261,065	\$133,752,217	
Accumulative Interest			
State	\$ 25,103		
Local	76,963	102,066	
Unclaimed Accounts		144,266	\$ 133,998,549
Employers' Contributions:			
Contingent Reserve Fund:			
State			
Appropriation	\$ 99,626,524		
Delayed Enrollments	110,257		
Transfer from other system	2,193		
Dividends Received—N.C.G.I.P.F.	5,840,854	\$105,579,828	
Local			
Employers' Contributions	\$142,269,423		
Add'l Employer Contributions	110,740		
Delayed Enrollments	329,715		
Transfers from Other Systems	18,333	142,728,211	
Total Employers' Contrib. to C.R.F.		\$223,467,709	
Pension Adjustment Fund:			
State	\$ 20,504,038		
Local	25,292,074	45,796,112	\$ 294,104,151
Retirement Benefits Redeposited:			
Regular Allowances			
State	\$ 315,083		
Local	582,099	\$ 897,182	
Pension Adjustment Allowance			
State	\$ 161,673		
Local	228,265	389,938	
Unclaimed Pension Adjustment Allowances		50,165	
		31,082	1,368,366
Total Carried Forward			\$ 429,471,066

REVENUE (Continued)

Total Brought Forward		\$ 429,471,067
Gains-To Special Reserve Fund:	\$ 298,033	
On Mortgage Settlements	357,634	
On Bond Redemptions and Sales	32,805	655,667
Income		
Per Statement		291,339,575
TOTAL REVENUE		\$ 721,466,308
NET LEDGER ASSETS 6/30/83 AND TOTAL REVENUE		\$3,995,203,569

EXPENDITURES

Benefits Provided by Members:

Accumulated Contributions Withdrawals

Regular Withdrawals

State	\$ 4,738,099	
Local	8,909,451	\$13,647,550

Active Deaths

State	\$ 1,377,597	
Local	2,956,081	4,333,678

Transfer to Other Systems

State	\$ 195,004	
Local	827,968	1,022,972

Net Overpayment

Transferred		1
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Accumulative Interest Withdrawn:

Regular Withdrawals

State	\$ 732,881	
Local	1,240,308	1,973,189

Active Deaths

State	\$ 484,498	
Local	827,240	1,311,738

Transfers to Other Systems

State	\$ 30,508	
Local	168,988	199,496

Unclaimed Accounts

		322,292	\$ 22,810,916
Total Carried Forward			\$ 22,810,916

EXPENDITURES (Cont'd)

Total Brought Forward			\$ 22,810,916
Benefits Provided by Members and Employers:			
Retirement Allowances			
State	\$63,036,717		
Local	93,100,215	\$156,136,932	
Unclaimed Pensions		<u>17,411</u>	\$ 156,154,343
Benefits Provided by Employers:			
Pension Adjustment Allowance			
State	\$20,642,783		
Local	25,510,558	\$ 46,153,341	
Contingent Reserve Fund			
State	\$ 1,829,324		
Local	3,828,484	5,657,807	
NonContributory Group			
Insurance-Death Benefits			
State	\$ 8,915,890		
Local	13,692,341	22,608,231	
Unclaimed Pension			
Adjustment Allowances		<u>6,992</u>	74,426,371
Losses—To Special Reserve Fund:			
On Board Redemptions			
and Sales		\$ 25,416	
On Stock Sales		<u>488,660</u>	514,076
Total Expenditures			<u>\$ 253,905,705</u>
Net Ledger Assets, June 30, 1983			<u><u>\$3,741,297,863</u></u>

ACTUARIAL EVALUATION

The information given below is taken from the valuation of March 31, 1983, 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	\$1,084,534,467	
Add accrued interest creditable	48,214,669	
Add reserve transferable from Contingent Reserve Fund	14,999,532	\$1,147,748,668

Annuity Savings Fund:

Credited to fund	\$ 850,430,159	
Add accrued interest creditable	35,063,455	885,493,614

Contingent Reserve Fund:

Credited to fund	\$1,062,349,909	
Add NCGIPF payable	21,591,878	
Add accrued interest creditable	49,185,475	
Add excess interest earnings creditable	51,534,270	
Deduct reserve transferable to Retirement Reserve Fund	14,999,532	1,169,662,000

Special Reserve Fund:

Credited to fund	\$ 33,068,002	
Deduct excess interest earnings creditable	4,083,810	28,984,192
Total Present Assets		\$3,231,888,474

Present value of prospective contributions of members to be made to

Annuity Savings Fund	\$1,145,521,047
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Present value of prospective contributions payable by the State and local employers to the Contingent Reserve Fund as follows:

Future normal contributions	2,348,737,427	
Future accrued liability contributions	202,868,345	
Total Prospective Assets		3,697,126,819
<u>TOTAL ASSETS</u>		<u>\$6,929,015,293</u>

LIABILITIES

Present value of benefits payable on account of beneficiaries or their dependents now drawing allowance from the Retirement Reserve Fund		\$1,147,748,668
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	\$4,517,303,962	
Ordinary disability retirement allowances	230,759,840	
Accidental disability retirement allowances	59,408,620	
Ordinary death benefits	539,469,600	
Accidental death benefits	6,453,399	
Return of members' contributions upon withdrawal before retirement	427,851,198	5,781,266,625
<u>TOTAL LIABILITIES</u>		<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, 1983.

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	\$1,367,146,209	\$2,010,619,672
B. Adjusted Value of Assets	\$1,325,060,377	\$2,109,518,102
C. Funding Level B ÷ A	96.9%	104.9%

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. This 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 leading 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 7/1/82, and closing balance at 6/30/83 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 7/1/82 to 12/31/82 and 10.0 percent for the period 7/1/82 to 6/30/83.

FUNDS ON DEPOSIT

	<u>Balance 6/30/82</u>	<u>Balance 6/30/83</u>
Dividend Accumulation	\$4,512,145	\$2,552,901
Advance Premium	160,905	195,983
Special Reserve	715,020	767,535

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