

CONSOLIDATED POLICE AND  
FIREMEN'S PENSION FUND  
OF  
NEW JERSEY



1989  
*Annual Report*



FEATHER O'CONNOR  
Treasurer

DOUGLAS R. FORRESTER  
Director

**CONSOLIDATED POLICE AND FIREMEN'S  
PENSION FUND OF NEW JERSEY**

50 West State Street  
Trenton, New Jersey 08625

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THOMAS P. BRYAN, Treasurer Representative

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To His Excellency  
Thomas H. Kean  
Governor of the State of New Jersey

Dear Sir:

The commission of the Consolidated Police and Firemen's Pension Fund of the State of New Jersey is pleased to present the Thirty-Seventh Annual Report in compliance with the provisions of Chapter 358, P.L. 1952.

Respectfully submitted,

SPENCER H. SMITH,  
Chairperson

# *Annual Report*

The Consolidated Police and Firemen's Pension Fund is a program instituted by the State of New Jersey to solve the financial crises of 212 individual municipal pension funds that were providing retirement coverage for their police and fire employees. These funds had a combined unfunded liability of \$238 million and had no provisions for meeting other than current pension liabilities.

The consolidation of these municipal funds actually commenced in 1953, although prior to that date the local funds were closed to further membership. The liabilities were identified and transferred to the Consolidated Fund. A program of actuarial control and amortization of the unfunded liability began with assistance from the State of New Jersey.

The state is now in its 37th year and counties and municipalities have completed the amortization schedule. While the statute contemplates the possibility of additional local government financing, there does not appear to be any need in the near future. This is true despite results which appear to be adverse in the financing of the system. Such include significantly less mortality, particularly involving survivors, and likewise in the benefit schedule which no one could anticipate 30 years ago.

Chapter 78, Laws of 1989 reduces the time that a surviving spouse of a Consolidated Police and Firemen's Pension Fund member must have been married to the member prior to death before such spouse can qualify for survivor benefits. Chapter 78 requires that the surviving spouse have been married to the deceased member for only two years immediately preceding the death of the member in order to qualify. Previously, this requirement was five years.

This law was approved and applies to survivors of members who shall have died on or after February 1, 1980 but no payment shall be made with respect to any period of survivorship prior to May 8, 1989.

**MEMBERSHIP AND RETIREMENT**  
**PENSION PAYROLL**

**Fiscal Year Ending June 30, 1989**

<b><u>Number of:</u></b>		<b><u>Gross Annual Allowance:</u></b>
Retired Members	1,288	
Widow Beneficiaries	2,623	
Other	<u>22</u>	
Total	3,933	\$43,068,333

**RETIREMENT STATISTICS**

**Fiscal Year 1988-1989**

**Retirements During the Fiscal Year:**

Age and Service	0
Accidental Disability	0
Nonaccidental Disability	<u>0</u>
Total	0

**Survivor Pensions Paid During the Fiscal Year:**

Widows of Active Members	0
Dependent Child—Parents	0
Widows of Retired Members	<u>73</u>
Total	73

**ACTIVE MEMBERSHIP STATEMENT**

**Fiscal Year 1988-1989**

Police Members	0
Fire Members	<u>1</u>
Total	1

# Ernst & Young

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

Board of Trustees  
State of New Jersey  
Consolidated Police and Firemen's Pension Fund

We have audited the accompanying component unit financial statements of the State of New Jersey Consolidated Police and Firemen's Pension Fund as of June 30, 1989 and 1988, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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 Consolidated Police and Firemen's Pension Fund at June 30, 1989 and 1988, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

*Ernst & Young*

Princeton, New Jersey  
October 20, 1989

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

	June 30	
	1989	1988
<b>ASSETS</b>		
Investments, at cost:		
Bonds (market value \$52,719,533 in 1989 and \$62,025,855 in 1988)	\$52,791,319	\$62,871,573
Cash Management Fund (market value of \$10,914,243 in 1989 and \$9,849,222 in 1988)	10,914,243	9,849,222
Mortgages (market value \$13,783,093 in 1989 and \$16,719,545 in 1988)	13,880,309	17,004,231
<b>Total Investments</b>	<u>77,585,871</u>	<u>89,725,026</u>
Receivables:		
Contributions:		
Members	468	233
Employers	15,276	17,419
Accrued income on investments	1,128,187	1,355,166
Due from Pension Adjustment Fund	1,689,102	1,694,387
Other	72,344	4,952
<b>Total Receivables</b>	<u>2,905,377</u>	<u>3,072,157</u>
Cash	300,888	350,121
<b>TOTAL ASSETS</b>	<u>\$80,792,136</u>	<u>\$93,147,304</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Retirement benefits payable	\$ 3,681,967	\$ 3,758,127
Accounts payable and accrued expenses	373,667	327,387
<b>Total Liabilities</b>	<u>4,055,634</u>	<u>4,085,514</u>
Fund Balances:		
Pension reserve fund	76,736,502	89,061,790
Other fund	0	0
<b>Total Fund Balances</b>	<u>76,736,502</u>	<u>89,061,790</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$80,792,136</u>	<u>\$93,147,304</u>

See notes to financial statements.



# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

## STATE OF NEW JERSEY CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

	Fund Balances		Totals	
	Pension Reserve Fund	Other Fund	Year Ended June 30 1989	1988
<b>REVENUES</b>				
Contributions:				
Members	\$ 2,799	\$ 0	\$ 2,799	\$ 5,532
Employers	3,652,919	0	3,652,919	3,701,792
Investment revenue	6,925,620	0	6,925,620	7,814,848
Pension Adjustment Fund	0	20,142,193	20,142,193	20,786,988
Other	0	19,512	19,512	37,207
<b>TOTAL REVENUES</b>	<u>10,581,338</u>	<u>20,161,705</u>	<u>30,743,043</u>	<u>32,346,367</u>
<b>EXPENSES</b>				
Benefit payments	22,906,626	0	22,906,626	24,768,609
Pension Adjustment Fund	0	20,142,193	20,142,193	20,786,988
Other	0	19,512	19,512	37,207
<b>TOTAL EXPENSES</b>	<u>22,906,626</u>	<u>20,161,705</u>	<u>43,068,331</u>	<u>45,592,804</u>
<b>EXCESS OF EXPENSES OVER REVENUES</b>	(12,325,288)	0	(12,325,288)	( 13,246,437)
Fund balances at beginning of year	89,061,790	0	89,061,790	102,308,227
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$76,736,502</u>	<u>\$ 0</u>	<u>\$76,736,502</u>	<u>\$ 89,061,790</u>

See notes to financial statements.

**STATE OF NEW JERSEY**  
**CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

	<b>Year Ended June 30</b>	
	<b>1989</b>	<b>1988</b>
<b>SOURCES OF FINANCIAL RESOURCES</b>		
Excess of expenses over revenues	(\$12,325,288)	(\$13,246,437)
Accretion and amortization	610	69,195
Loss on sale or redemption of bonds	35,229	0
	<u>( 12,289,449)</u>	<u>( 13,177,242)</u>
Proceeds from sales and maturities of long-term investments	23,580,057	26,317,291
Decrease in temporary investments	0	10,520,000
Decrease in Cash Management Fund	0	1,415,693
Decrease in accrued interest receivable	226,979	108,080
Decrease (increase) in contributions receivable	1,908	( 8,761)
Increase (decrease) in retirement benefits payable	( 76,160)	818,475
Increase in accounts payable and accrued expenses	46,280	153,183
	<u>11,489,615</u>	<u>26,146,719</u>
<b>USES OF FINANCIAL RESOURCES</b>		
Purchase of long-term investments	10,411,720	25,461,985
Increase in Cash Management Fund	1,065,021	0
Increase in other receivables	62,107	400,971
	<u>11,538,848</u>	<u>25,862,956</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>( 49,233)</b>	<b>283,763</b>
<b>CASH, beginning of year</b>	<b>350,121</b>	<b>66,358</b>
<b>CASH, end of year</b>	<b>\$ 300,888</b>	<b>\$ 350,121</b>

See notes to financial statements.

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

**June 30, 1989**

**NOTE A—SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Consolidated Police and Firemen's Pension 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 other securities.

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 the sale occurs. Interest and dividend income on investments is recognized when earned.

**Administrative Expenses:** The fund is administered by the State of New Jersey Division of Pensions. All administrative expenses for the years ended June 30, 1989 and 1988 were allocated to the State-related employers and they were responsible for such cost. The Fund's assets available for paying benefits were not reduced for administrative expenses. Legislation passed subsequent to June 30, 1989 will require administrative expenses to be paid by the Fund. The expenses will be included in the normal cost of employer contributions in the following year.

**STATE OF NEW JERSEY**  
**CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

**NOTE B—DESCRIPTION OF THE FUND**

**Organization:** The Fund is a cost-sharing multiple-employer contributory defined benefit plan which was established as of January 1, 1952, under the provisions of N.J.S.A. 43:16. 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 statements of the State.

The Fund's designated purpose is to provide retirement allowances and other benefits to members. Membership in the Fund is limited to county and municipal police and firemen who were appointed prior to July 1, 1944. There is one active vested member and 4,093 pensioners and beneficiaries receiving benefits as of January 1, 1989, the date of the most recent actuarial valuation. The Fund's Board of Trustees is responsible for its organization and administration.

**Pension Adjustment Program:** Pursuant to N.J.S.A. 43:3B in 1958, eligible retirants 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 Fund. 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 employers.

**Vesting and Benefit Provisions:** The vesting and benefit provisions are set by N.J.S.A. 43:16. The Fund provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, plus 1% for each creditable year of service in excess of 25 years, but not to exceed 30 years.

Members are always fully vested for their own contributions.

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

**NOTE B—DESCRIPTION OF THE FUND—Continued**

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

Information about the agreement, including vesting and benefit provisions, is contained in the "New Jersey Public Employees Benefit Manual." Copies of this manual 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 January 1, 1989.

The pension benefit obligation as of December 31, 1988 was:

Pension benefit obligations:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$135,974,451
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Current employee (vested)	219,655
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Total pension benefit obligation	136,194,106
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Net assets (fund balance) available for benefits at book value (market value not available)	95,804,236
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Unfunded pension benefit obligation	<u>\$ 40,389,870</u>
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The above liability was calculated based on the actuarial assumptions of a) rate of return on investments of 8.0% compounded annually as compared to 8½% used in the prior year valuation; b) assets valued at cost or amortized cost; and c) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary.

**STATE OF NEW JERSEY**  
**CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

**NOTE C—PENSION BENEFIT OBLIGATION—Continued**

The pension benefit obligation increased \$3,068,069 during the year due to the change in rate of return on investments.

**NOTE D—CONTRIBUTION POLICY**

The contribution policy is set by N.J.S.A. 43:16 and requires contributions by active members, State-related employer, and the State. Members contribute 7% of their salary annually to the Fund.

In accordance with the provisions of Chapter 358, P.L. 1952, each employer contributes 6% of total salaries of all active participants each year.

The contribution policy requires the State-related employer to make a normal contribution. In addition, the State contributes each year, annual deficit payments until and including the payment due July 1, 1999. As of January 1, 1989, the actuary computed that, utilizing the present method of funding, the unfunded actuarial liability of the State for prior service amounted to \$65,358,113 and will be funded over the expected life of the retirants. The annual impact of the increased unfunded actuarial liability determined as of January 1, 1988 on recommended employer contributions is approximately \$8,300,000, however, due to a change in the actuarial valuation date, the 1990 contribution will represent six months of costs and the related impact will be approximately \$4,150,000.

Actual contributions for the year ended June 30, 1989 were \$3,655,718 (\$3,652,919 from employers and \$2,799 from members) which primarily relates to the accrued liability funding.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note C with the exception of the assumed rate of return on investments, which is 6% for contribution requirements.

No actuarial assumptions were changed during the year.

**NOTE E—DESCRIPTION OF FUND BALANCES**

**Pension Reserve Fund:** The Pension Reserve Fund is credited with



**STATE OF NEW JERSEY**  
**CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

**NOTE E—DESCRIPTION OF FUND BALANCES—Continued**

all active member, State-related, and State contributions and investment income. In addition, all benefit payments are paid from this account.

**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 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 institution, amount of the portfolio to be covered by the agreements and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of investment risk assumed by the Fund at June 30, 1989. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Trust Department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Fund's name. As of June 30, 1989, 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 custodian banks in trust for the Fund. The custodian banks as agents for the Fund maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by the Fund.

Securities not maintained by the Federal Reserve Banks or DTC are

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

**NOTE F—INVESTMENTS—Continued**

in the name of a designated nominee representing the securities of the Fund which establishes the Fund's unconditional right to the securities.

A summary of investment securities as of June 30, 1989 and the approximate market values follows:

	<b>Book Value</b>	<b>Market Value</b>
	(in 000's)	
U.S. and municipal Government bonds and obligations	\$42,170	\$42,605
Telephone bonds	3,323	2,978
Gas and electric bonds	5,003	4,751
Other	2,295	2,386
	<u>52,791</u>	<u>52,720</u>
Mortgages	13,880	13,783
State of New Jersey Cash Management Fund	<u>10,914</u>	<u>10,914</u>
<b>TOTAL</b>	<u><u>\$77,585</u></u>	<u><u>\$77,417</u></u>

Investments in excess of 5% of net assets are:

	<b>June 30</b>	
	<b>1989</b>	<b>1988</b>
	(in 000's)	
State of New Jersey Cash Management Fund	\$10,914	\$9,849

**NOTE G—INCOME TAX STATUS**

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

**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 17 and 18.



# **SUMMARY OF THE ACTUARIAL REPORT**

**JANUARY 1, 1989**

The rate of anticipated interest earning used for the valuation was 6.0 percent compounded annually.

	<u>Annual Number</u>	<u>Annual Salaries</u>	<u>Pensions</u>
<b>Active members</b>	1	\$39,874	
<b>Pensioners:</b>			
Service Retirement	1,173		\$ 8,861,919
Disability Retirement	183		735,084
Widow Beneficiaries	2,715		13,495,690
Dependents—Other	<u>22</u>		<u>28,437</u>
	4,093		\$23,121,130

The adjusted amortization installment developed from this valuation was as follows:

	<b>STATE of N.J.</b>
Annual payment 7/1/90	\$10,949,094

**NOTE:** The final county-municipal debt payment on the original amount of the deficit that was to be amortized over a 30-year period was made in 1982.

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

Board of Trustees

State of New Jersey

Consolidated Police and Firemen's Pension Fund

The analysis of funding progress and revenues by source and benefits of the State of New Jersey Consolidated Police and Firemen's Pension Fund 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 & Young*

Princeton, New Jersey

October 20, 1989

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS**

**STATE OF NEW JERSEY**  
**CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

Information from the most recent actuarial valuation for the fiscal year end.

Plan Fiscal Year	(1)	(2)	(3)	(4)
	Net Assets Available For Benefits	Pension Benefit Obligation	Percentage Funded (1) ÷ (2)	Unfunded Pension Benefit Obligation (2) - (1)
1988	\$100,663,886	\$143,795,377	70.0%	\$43,131,491
1989	95,804,236	136,194,106	70.3	40,389,870

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 Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Fund.

Information for the eight years prior to the year ended June 30, 1988 is unavailable.

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**REVENUES BY SOURCE AND BENEFITS**

**STATE OF NEW JERSEY**  
**CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND**

Plan Fiscal Year	Revenues By Source				
	Members Contributions	Employer State	Contributions		Investment Income
			Local		
1980	\$124,881	\$5,925,559	\$18,786,032	\$ 6,237,174	\$31,073,646
1981	83,335	5,910,555	19,326,041	7,363,087	32,683,018
1982	70,792	6,053,304	20,470,507	9,601,863	36,196,466
1983	37,583	6,121,722	20,450,960	10,320,749	36,931,014
1984	30,241	5,391,350	35,952	10,625,861	16,083,404
1985	23,252	5,328,891	25,001	9,787,810	15,164,954
1986	19,030	5,023,989	41,489	10,238,063	15,322,571
1987	14,755	4,311,773	8,241	8,208,540	12,543,309
1988	5,532	3,681,819	19,973	7,814,848	11,522,172
1989	2,799	3,650,521	2,398	6,925,622	10,581,340

Plan Fiscal Year		Benefits
1980		\$25,312,020
1981		24,815,542
1982		24,084,346
1983		23,273,363
1984		22,323,774
1985		21,202,511
1986		19,985,501
1987		18,885,255
1988		24,768,609
1989		22,906,626

Contributions were made in accordance with actuarially determined contribution requirements.







Consolidated Police and Firemen's Pension Fund  
State of New Jersey

CN 295

Trenton, N.J. 08625-0295