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PUBLIC EMPLOYEES'
RETIREMENT SYSTEM
OF
NEW JERSEY



1986
Annual Report

**DEPARTMENT OF
THE TREASURY**

FEATHER O'CONNOR
Treasurer

**DIVISION OF
PENSIONS**

DOUGLAS R. FORRESTER
Director

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

20 West Front Street
Trenton, New Jersey 08625

BOARD

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THOMAS P. BRYAN, State Treasurer Representative
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Consulting Actuaries, Inc.

MEDICAL BOARD

WILLIAM COLEMAN, M.D.
MURRAY SHEPP, M.D.
DAVID ECKSTEIN, 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 Thirty-Second Annual Report in compliance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

GENEVIEVE F. McMENAMEN,
Chairperson

Annual Report

Chapter 73, P.L. 1985, eliminated the mandatory retirement ages for New Jersey public employees with a few exceptions involving policemen, firemen, tenured faculty members and judges. This law became effective for public employees on October 1, 1985.

Chapter 220, P.L. 1985, permits a PERS veteran who has attained at least age 60 and accrued at least 35 years of aggregate service credit to retire and receive an annual retirement allowance based upon one-sixtieth of his or her last year of salary times his or her years of service credit. This law was retroactively effective as of April 9, 1985.

Chapter 283, P.L. 1985, permits certain PERS retirees to return to public employment and reactivate their former pension accounts under certain circumstances. This law was retroactively effective as of April 1, 1980.

Chapter 308, P.L. 1985, mandated the divestiture of investments of pension funds in the obligations or securities of companies doing business in or with the Republic of South Africa. This law became effective on August 27, 1985.

Chapter 282, P.L. 1985, requires the Division of Pensions to notify via certified mail the spouse of a PERS member who selects the maximum retirement option on his or her retirement application. This law became effective for retirement applications received by the Division of Pensions after May 1, 1986.

Chapter 414, P.L. 1985, permits certain members of the PERS who hold elective office to retire from the PERS and receive their monthly retirement allowance while still holding their elective office under certain conditions. This law became effective on January 13, 1986.

Chapter 532, P.L. 1985, permits a PERS member, who has been discontinued from service through no fault of his own or through a leave of absence granted by the member's employer or by any State law and who has not withdrawn his or her contributions, to continue PERS membership if he or she returns to eligible service within 10 years. This law became effective on January 21, 1986.

As a result of the annual election, Joseph W. Stauss and Norma Jean Sawyer were elected to three-year terms commencing July 1, 1986. Angelina Siconolfi was elected chairperson by the Board effective July 1, 1986.

MEMBERSHIP

A summary of the membership activity for the fiscal year ended June 30, 1986, follows:

37,677—enrollments
 4,806—retirements
 26,646—active accounts terminated through
 separation from employment
 996—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
1985	236,060	50,939	286,999
1986	240,049	53,971	294,020

**Retirements by Type and Option
 July 1, 1985—June 30, 1986**

<u>Service</u>	<u>Early</u>	<u>Deferred</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Veteran</u>	<u>Accidental Death</u>
2,657	237	151	28	207	1,074	1
<u>Maximum</u>	<u>Option I</u>	<u>Option II</u>	<u>Option III</u>	<u>Option IV</u>		
2,270	1,117	629	311	27		

Standard Retirement Payroll June 30, 1986

Regular Allowance—53,971 retirants and beneficiaries
 Pension Adjustment Act—
 Gross Payroll, month of June, 1986 \$ 20,567,675

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

<u>June 30</u>	<u>Number</u>	<u>Payroll</u>
1955	2,649	\$ 2,848,923*
1960	7,116	8,876,808*
1965	10,445	16,737,419*
1970	13,298	24,036,226*
1975	21,682	53,518,488*
1980	35,185	144,408,900*
1985	50,939	213,581,142*
1986	53,971	236,140,168*

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

GROUP LIFE INSURANCE CLAIMS: (CASH BASIS)

Active Members

<u>Number</u>	<u>Settlement</u>	<u>Amount</u>
794	Cash Lump Sum Reserve	\$39,557,006
1	Monthly Annuities	59,820
795	Total active member death claims	\$39,616,826

Retired Members

1,761	Regular Retirants (Death after age 60)—Lump Sum	\$ 3,743,424
59	Disability Retirants (Death before age 60)—Lump Sum	1,344,382
1,820	Total death claims—retirants	\$ 5,087,806
<u>2,615</u>	Total claims—active and retired members	<u>\$44,704,632</u>

SUMMARY OF CLAIM CHARGES (CASH BASIS)

Noncontributory Plan:

Active Members	795	\$20,122,925
Retirants	<u>1,820</u>	<u>5,087,806</u>
	2,615	\$25,210,731

Contributory Plan:

Active Members	<u>\$19,493,901</u>	<u>\$44,704,632</u>
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Return of Contributions (Cash Basis):

a) 14,691 members withdrew from the system and received a return of the pension contributions totaling		\$21,318,095
b) The survivors of 936 members who died before retirement received a return of the members' contributions totaling		\$ 6,368,956
c) Settlement of inactive accounts		<u>337,111</u>
		28,024,162

Loans:

52,022 members applied for and received loans on their accounts totaling \$100,196,169.

UNCLAIMED ACCOUNTS

Unclaimed accounts, June 30, 1985		\$1,313,095
Memberships discontinued and not settled during 1985-86	\$1,007,429	
Memberships discontinued and settled in 1985-86	<u>123,294</u>	
Added in fiscal year 1985-86		<u>1,130,723</u>
		2,443,818
Less:		
Cash settlements during fiscal year	\$ 214,212	
Cash escheat to State Treasurer	122,899	
Transferred to new accounts	<u>22,750</u>	<u>359,861</u>
BALANCE, JUNE 30, 1986		<u>\$2,083,957</u>

Lists of the new additions during 1985-86 have been sent to all employing units with a request that they circulate copies among their memberships in an effort to ascertain the whereabouts of the listed former members and advise the Division of Pensions.

Ernst & Whinney

3131 Princeton Pike
Lawrenceville, New Jersey 08648
609/896-3223

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

We have examined the balance sheet of the State of New Jersey Public Employees' Retirement System as of June 30, 1986, and the related statements of revenues, expenses, and changes in fund balances and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the State of New Jersey Public Employees' Retirement System at June 30, 1986, and the results of operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Whinney

Lawrenceville, New Jersey
November 17, 1986

BALANCE SHEET

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

June 30, 1986

ASSETS

Investments at cost:

Bonds (market value \$214,159,007)	\$ 236,873,361
Common Pension Fund A (market value \$2,758,855,448)	1,784,839,817
Common Pension Fund B (market value \$2,167,960,699)	1,959,716,425
Cash Management Fund (market value \$120,252,658)	120,252,658
Mortgages (market value \$638,666,269)	623,622,207
Total Investments	<u>4,725,304,468</u>

Receivables:

Contributions:	
Members	33,847,796
Employers	122,382,090
Investments:	
Accrued interest	57,629,347
Dividends	18,770,429
Members' loans	100,196,169
Due from Pension Adjustment Fund	3,737,321
Other	7,260,742
Total Receivables	<u>343,823,894</u>
TOTAL ASSETS	<u><u>\$5,069,128,362</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Retirement benefits payable	\$ 20,628,414
Death benefits payable	1,918,367
Cash overdraft	5,078,484
Accounts payable and accrued expenses	11,251,454
Total Liabilities	<u>38,876,719</u>

Fund Balances:

Members' annuity savings fund and accumulative interest	1,295,060,376
Contingent reserve fund	1,959,452,380
Retirement reserve fund	1,696,652,943
Special reserve fund	46,974,028
Contributory group insurance premium reserve fund	32,111,916
Other fund	0
Total Fund Balances	<u>5,030,251,643</u>

TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$5,069,128,362</u></u>
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See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

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

Year Ended June 30, 1986

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	Fund Balances						
	Total	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	Other Fund
REVENUES							
Contributions:							
Members	\$ 184,511,198	\$ 163,182,225				\$21,221,672	\$ 107,301
Employers	277,292,387		\$ 277,292,387				
Investment revenue	413,674,435	59,443,122	201,913,901	\$ 99,703,872	\$50,911,908	1,701,632	
Pension Adjustment Fund	49,708,338						49,708,338
Other	510,682			299,627			211,055
TOTAL REVENUES	<u>925,697,040</u>	<u>222,625,347</u>	<u>479,206,288</u>	<u>100,003,499</u>	<u>50,911,908</u>	<u>22,923,304</u>	<u>50,026,694</u>
EXPENSES							
Benefit payments	196,568,346			196,568,346			
Withdrawals	32,973,917	30,552,944					2,420,973
Noncontributory group insurance death benefits	28,946,313		28,946,313				
Pension Adjustment Fund	49,780,719						49,780,719
Other	17,088,092		1,349,272			15,600,000	138,820
TOTAL EXPENSES	<u>325,357,367</u>	<u>30,552,944</u>	<u>30,295,585</u>	<u>196,568,346</u>	<u>0</u>	<u>15,600,000</u>	<u>52,340,512</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	600,339,563	192,072,403	448,910,703	(96,564,847)	50,911,908	7,323,304	(2,313,818)

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

STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Year Ended June 30, 1986

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	Fund Balances						Other Fund
	Total	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Reserve Fund	
Transfers between reserves for:							
Retirements by members	\$ 0	(\$ 60,014,599)	(\$ 201,113,619)	\$ 261,128,218			
Other	0	(725,797)	47,319,276	(2,017,051)	(\$45,577,246)		\$ 1,000,818
FUND BALANCES AT BEGINNING OF YEAR	<u>4,429,911,990</u>	<u>1,163,728,369</u>	<u>1,664,336,020</u>	<u>1,534,106,623</u>	<u>41,639,366</u>	<u>\$24,788,612</u>	<u>1,313,000</u>
FUND BALANCES AT END OF YEAR	<u>\$5,030,251,643</u>	<u>\$1,295,060,376</u>	<u>\$1,959,452,380</u>	<u>\$1,696,652,943</u>	<u>\$46,974,028</u>	<u>\$32,111,916</u>	<u>\$ 0</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

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

Year Ended June 30, 1986

SOURCES OF FINANCIAL RESOURCES	
Excess of revenues over expenses	\$ 600,339,653
Items not requiring (providing) financial resources:	
Accretion and amortization—net	(2,606,564)
Net loss on sales and maturities of long-term investments	15,288,294
Net realized gain on Common Pension Funds A and B	(66,200,202)
	<u>546,821,181</u>
Proceeds from sales and maturities of long-term investments	493,125,936
Decrease in Cash Management Fund	62,492,727
Decrease in contribution receivable	6,909,929
Increase in retirement benefits payable	2,042,584
Increase in death benefits payable	1,918,367
Increase in accounts payable and accrued expenses	1,832,604
Total sources of financial resources	<u>1,115,143,328</u>
USES OF FINANCIAL RESOURCES	
Purchases of long-term investments	1,102,356,860
Increase in accrued investment income	4,163,428
Increase in members' loans	13,611,786
Increase in other receivables	2,931,769
Total uses of financial resources	<u>1,123,063,843</u>
NET DECREASE IN CASH	(7,920,515)
CASH, beginning of year	<u>2,842,031</u>
CASH OVERDRAFT, end of year	<u><u>(\$ 5,078,484)</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM

June 30, 1986

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

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

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

Investments in the Common Pension Funds represent commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants. These investments are valued at cost plus undistributed realized net gains of \$194,309,516 which includes a \$197,182,632 gain and a \$2,873,116 loss in Common Pension Funds A and B, respectively, at June 30, 1986.

Investments in the Cash Management Fund are valued at cost, which approximates 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 settlement date basis. Realized gains and losses on sales of investments are determined by the average cost basis and recognized as investment income when sale occurs. Interest and dividend income on investments is recognized when earned.

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

NOTE B—DESCRIPTION OF THE FUND

Organization: The system is a contributory defined benefit plan which was established as of January 1, 1956, under the provision of N.J.S.A. 43:15A. The System's designated purpose is to provide retire-

NOTES TO FINANCIAL STATEMENTS—Continued

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

Contributions: The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members, employers, and the state. Member contribution rates range from 4.96% to 8.73% of salary based on the members' age at date of enrollment. Once members are assigned a rate, it is not normally adjusted.

In accordance with the provisions of Chapter 57, P.L. 1970, the contributions required of employers and the state are based upon an annual actuarial valuation, as a percentage of future compensation of members which will support the pension and death benefits payable by employers. For the year ended June 30, 1986, the amounts required from state-related employers ranged from 7.39% to 9.10% and state contributions ranged from 8.60% to 8.87% of active payroll. The state appropriation for the year ended June 30, 1986, paid July 1, 1985 is based on 1984 actuarial valuations and the state-related employer contributions are payable June 30, 1986, based on the most recent 1985 actuarial valuation.

The normal contribution includes an amount that is required to fund noncontributory death benefits.

Actuarial Valuation: The contribution policy requires state-related employers and the state to make a normal contribution and a past service contribution as determined by a qualified actuary. The system's actuary uses the "projected benefit method" to determine normal costs. As of March 31, 1985, the date of the most recent actuarial report, the actuary computed that, utilizing the present method of funding, the unfunded actuarial liability of the employers and the State for prior service was \$21,900,126. This amount is to be funded in approximately 27 years.

Significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 6-1/2%; (b) assumed rate of salary increases ranging from 8.39% at age 25 to 2.86% at age 69; (c) assets valued at cost or amortized cost; and (d) mortality, vesting, retirement age, and withdrawal estimates based on tables furnished by the actuary.

No actuarial assumptions were changed during the year.

NOTES TO FINANCIAL STATEMENTS—Continued

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

Pension Adjustment Program: Pursuant to N.J.S.A. 43:3B in 1958, eligible 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 percent factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. These cost-of-living increases are not payable by the system. The cost-of-living increases are made from the State of New Jersey Pension Adjustment Fund which is funded on a "pay as you go" basis by State appropriation.

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

Information about the system, including vesting and benefit provisions, is contained in the pamphlet, "Public Retirement in New Jersey". Copies of this pamphlet are available from the State of New Jersey Division of Pensions.

NOTE C—DESCRIPTION OF FUND BALANCES

Members' Annuity Savings Fund and Accumulative Interest: The Members' Annuity Savings Fund and Accumulative Interest (ASF) is credited with all contributions made by active members of the system. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer which was 6-1/2% for the year ended June 30, 1986. After three years of participation, withdrawing members receive interest at an annual rate of 2% of their accumulative contribution with the remaining portion of interest forfeited.

Upon retirement of a member, the accumulated contributions are transferred to the Retirement Reserve Fund for subsequent benefit payments.

NOTES TO FINANCIAL STATEMENTS—Continued

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

Contingent Reserve Fund: The Contingent Reserve Fund is credited with the contributions of the State and other employers. Additionally interest earnings, after crediting the ASF and the Retirement Reserve Fund, as required, are credited to this account.

Upon retirement of a member, the employer contributions necessary to produce the balance of the retirement allowance, are transferred to the Retirement Reserve Fund for subsequent benefit payments.

Each year, the amounts necessary as determined by the actuary for the payment of retirement benefits are transferred from the Contingent Reserve Fund to the Retirement Reserve Fund. In addition, payments for the group insurance made by The Prudential Insurance Company of America to provide noncontributory cash death benefits are made from the Contingent Reserve Fund.

Retirement Reserve Fund: The Retirement Reserve Fund is the account from which all retirement benefits are paid. Upon retirement of a member, accumulated contributions together with accumulated regular interest are transferred to the Retirement Reserve Fund from the ASF. Any additional reserves needed for the retirement benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (6.5% for 1986) is credited to the Retirement Reserve Fund. Any surplus or deficit developing in the Retirement Reserve Fund shall be adjusted from time to time by transfers to or from the Contingent Reserve Fund upon advice of the actuary.

Special Reserve Fund: The Special Reserve Fund is the fund to which any excess interest earnings and gains from sale and maturity of investments are transferred and against which any losses from the sale of securities are charged. The maximum limit on the accumulation of this account is 1% of the book value of the investments allocated to the system, excluding cash management fund investments allocated to the Contributory Group Insurance Premium Fund which amounted to \$27,901,632 at June 30, 1986. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund: The Contributory Group Insurance Premium Fund represents the accumulation of member contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carrier.

NOTES TO FINANCIAL STATEMENTS—Continued

Members are required by statute to participate in the contributory group insurance plan in this first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for this coverage is 6/10 of 1% of salary.

NOTE D—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.

A summary of investment securities as of June 30, 1986 and the approximate market values follows:

	<u>Book Value</u>	<u>Market Value</u>
	(in 000's)	
Bonds:		
U.S. and Municipal		
Government bonds	\$ 5,940	\$ 6,058
Industrial bonds	63,219	58,594
Telephone bonds	40,625	35,164
Gas, electric, and water bonds	92,038	81,291
Finance companies— senior debt	10,054	9,302
Railroad equipment obligations	734	727
Other	24,263	23,023
Subtotal	<u>236,873</u>	<u>214,159</u>
Mortgages	623,622	638,666
Common Pension Fund A	1,784,840	2,758,855
Common Pension Fund B	1,959,716	2,167,961
State of New Jersey Cash Management Fund	120,253	120,253
TOTAL	<u><u>\$4,725,304</u></u>	<u><u>\$5,899,894</u></u>

NOTES TO FINANCIAL STATEMENTS—Continued

A state law enacted on August 27, 1985 requires the Division of Investments to divest of all securities or other obligations of any company engaged in business in or with the Republic of South Africa by August 27, 1988. At June 30, 1986, the System is a 33%, 37%, and 3% participant in the two State Common Pension Funds and State of New Jersey Cash Management Fund with applicable investments aggregating a cost of \$1.5 billion, \$696 million, and \$326 million, respectively. The market value of these investments at June 30, 1986 equals or exceeds the applicable cost basis.

NOTE E—INCOME TAX STATUS

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

ACTUARIAL EVALUATION

The information given below is taken from the valuation of March 31, 1985, 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	\$1,423,739,454	
Add accrued interest creditable	66,370,576	
Add reserve transferable from Contingent Reserve Fund	14,193,682	\$1,504,303,712

Annuity Savings Fund:

Credited to fund	\$1,054,224,864	
Add accrued interest creditable	58,221,660	1,112,446,524

Contingent Reserve Fund:

Credited to fund	\$1,442,372,367	
Add accrued interest creditable	64,910,547	
Add excess interest earnings creditable	54,350,915	
Deduct reserve transferable to Retirement Reserve Fund	14,193,682	1,547,440,147

Special Reserve Fund:

Credited to fund	\$ 34,089,019	
Add excess interest earnings creditable	4,798,976	38,887,995

Total Present Assets

\$4,203,078,378

Present value of prospective contributions of members to be made to Annuity Savings Fund

\$1,353,604,539

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

Future normal contributions	2,733,153,268	
Future accrued liability contributions	201,900,126	

Total Prospective Assets

4,288,657,933

TOTAL ASSETS

\$8,491,736,311

LIABILITIES

Present value of benefits payable on account of beneficiaries or their dependents now drawing allowance from the Retirement Reserve Fund		\$1,504,303,712
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	\$5,490,481,069	
Ordinary disability retirement allowances	284,213,447	
Accidental disability retirement allowances	71,845,500	
Ordinary death benefits	637,195,395	
Accidental death benefits	6,825,173	
Return of members' contributions upon withdrawal before retirement	<u>496,872,015</u>	<u>6,987,432,599</u>
<u>TOTAL LIABILITIES</u>		<u>\$8,491,736,311</u>

LEVEL OF FUNDING

With respect to the funding of the system, the following is an excerpt from page 29 of the actuarial valuation as of March 31, 1985.

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 under the traditional approach to be:

	<u>State</u>	<u>Local Employers</u>
A. Projected Accrued Liabilities	\$2,023,406,000	\$2,981,208,000
B. Valuation Assets	1,548,786,073	2,654,292,305
C. Funding Level B ÷ A	76.5%	89.0%

The projected accrued liabilities are calculated using the valuation interest rate and salary scales. Valuation assets are based on book value

as reported in the Fund's financial statements. The calculations are made as of the valuation date (March 31).

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 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. A brief description of each deposit account is noted below:

1. **Dividend Accumulation**—This is an account established by the board of trustees, as policyholder, into which dividends arising from the active life experience are deposited. Such funds could be used to forestall rate increases and used to reduce rates.

2. **Advance Premium**—Returned premiums are deposited in this account when the Special Reserve contains funds in excess of its contractual limit. Such money could be used to delimit rate increases or reduce rates.
3. **Special Reserve**—This money is used to stabilize experience.

The Dividend Accumulation account earned interest at the rate of 10.0 percent during the policy year. The Special Reserve earned interest at the rate of 10.0 percent for the portion of the reserve held on July 1, 1982 and interest at the rate of 11.0 percent on the balance.

FUNDS ON DEPOSIT

	Balance	Balance
	<u>6/30/85</u>	<u>6/30/86</u>
Dividend Accumulation	\$2,861,273	\$3,133,094
Advance Premium	269,254	294,833
Special Reserve	900,098	983,757



Public Employees' Retirement System
State of New Jersey
CN 295
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