

STATE OF NEW JERSEY
TEACHERS' PENSION AND
ANNUITY FUND



1989
Annual Report

**DEPARTMENT OF
THE TREASURY**

FEATHER O'CONNOR
Treasurer

**DIVISION OF
PENSIONS**

DOUGLAS R. FORRESTER
Director

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

50 West State Street
Trenton, New Jersey 08625

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To His Excellency

Thomas H. Kean

Governor of the State of New Jersey

Dear Sir:

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

Respectfully submitted,

DOLORES MARSH,

Chairperson

Annual Report

Chapter 134, Laws of 1988 permits certain members of the Teachers' Pension and Annuity Fund who retire with an outstanding loan balance to have that balance paid by withholdings from their monthly retirement allowance in amounts equivalent of the monthly payroll loan deductions in effect at the time of retirement provided that the member:

- (1) receives a disability retirement allowance; or
- (2) receives a non-disability retirement allowance but in reality retired due to a medical illness or disability.

Previous to the enactment of this law, the entire monthly retirement allowance (after authorized deductions) would be withheld until the full amount plus interest was satisfied. The Board of Trustees is responsible for developing criteria for the determination of the alleged medical illness or disability regarding non-disability retirees.

This law was approved on October 5, 1988 to become effective for those retirees whose benefits were due and payable on February 1, 1989 and thereafter.

Chapter 101, Laws of 1989 permits members of the Teachers' Pension and Annuity Fund to purchase service credit established within a local retirement system if they were ineligible to transfer such service credit to the Fund and withdrew their contributions from the local retirement system. All the local retirement system service credit must be purchased. The cost will be computed upon current age and current salary or the highest annual compensation for service in the state for which contributions were made during any previous fiscal year of Teachers' Pension and Annuity Fund membership.

This law was approved and became effective on June 26, 1989.

MEMBERSHIP

Beginning with this report, all membership totals including retirement by type and option, will be located in the Notes to the Financial Statements, specifically Note B—Description of the System.

COMPARATIVE DATA

<u>Period Ending</u>	<u>Active</u>	<u>Retirees and Beneficiaries</u>	<u>Total</u>
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
June 30, 1988	114,087	31,942	146,029
March 31, 1988*	111,514	34,169	145,683

*Beginning this report, total active and retired membership will be reported using the latest actuarial valuation for the system.

Standard Retirement Payroll on June 30, 1989

Regular Allowance (32,954 retirees and beneficiaries)	\$24,576,786
Pension Adjustment Act	<u>7,522,068</u>
Gross Payroll, month of June 1989	<u>\$32,098,854</u>

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

<u>June 30</u>	<u>Number</u>	<u>Payroll</u>
1920	581	\$ 409,605
1930	1,347	1,497,161
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	14,538	48,953,885*
1975	19,888	93,546,957*
1980	24,839	169,018,512*
1985	29,021	269,257,406*
1988	31,942	341,404,852*
1989	32,954	379,664,667*

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

Group Life Insurance Claims: (Cash Basis)

ACTIVE MEMBERS

Number	Settlement	Amount
170	Cash Lump Sum	\$20,864,114
4	Reserve—Monthly Annuities	494,095
174	Total active member death claims	\$21,358,209

RETIRED MEMBERS

1,109	Regular Retirees (Death after age 60)— Lump Sum	\$ 6,590,964
19	Disability Retirees (Death before age 60)— Lump Sum	938,351
1,128	Total death claims—retirees	\$ 7,529,315
1,302	Total claims—active and retired members	<u>\$28,887,524</u>

Summary of Claim Charges (Cash Basis)

NONCONTRIBUTORY PLAN:

Active Members	174	\$ 9,427,305	
Retirees	1,128	4,303,023	\$13,730,328

CONTRIBUTORY PLAN:

Active Members	166	\$11,930,905	
Retirees	749	3,226,291	15,157,196
			<u>\$28,887,524</u>

Return of Contributions:

a) 2,788 members withdrew from the fund and received a return of their pension contributions with interest totaling	\$ 7,945,447
b) The survivors of 179 members, who died before retirement, received a return of the member's contribution with interest totaling	3,857,699
c) Settlement of expired accounts	<u>101,787</u>
Total	\$11,904,933

Loans:

25,591 members applied for and received loans on their accounts totaling \$84,625,590.

UNCLAIMED ACCOUNTS

Unclaimed accounts, June 30, 1988	\$1,274,680
Memberships discontinued and not settled during 1988-89	192,506
Memberships discontinued and settled in 1988-89	<u>15,640</u>
Added in fiscal year 1988-89	<u>208,146</u>
	\$1,482,826

Less:

Cash settlements during fiscal year	\$101,787	
Cash escheat to State Treasurer	99,664	
Transferred to new accounts	<u>13,590</u>	<u>215,041</u>
BALANCE, JUNE 30, 1989		\$1,267,785

Lists of the new additions during 1988-89 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 & Young

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

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 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 Teachers' Pension and Annuity 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
TEACHERS' PENSION AND ANNUITY FUND

	June 30	
	1989	1988
ASSETS		
Investments, at cost:		
Bonds (market value of \$189,096,457 in 1989 and \$223,721,338 in 1988)	\$ 201,032,621	\$ 242,115,938
Common Pension Fund A (market value of \$4,502,324,270 in 1989 and \$3,917,534,107 in 1988)	3,282,097,988	3,081,636,953
Common Pension Fund B (market value of \$3,298,351,158 in 1989 and \$2,901,307,710 in 1988)	3,215,168,983	2,906,164,056
Cash Management Fund (market value of \$231,051,617 in 1989 and \$257,210,611 in 1988)	231,051,617	257,210,611
Mortgages (market value of \$1,356,068,347 in 1989 and \$1,031,726,438 in 1988)	1,338,757,706	1,047,842,080
Total Investments	<u>8,268,108,915</u>	<u>7,534,969,638</u>
Receivables:		
Contributions:		
Members	43,072,704	38,417,245
Employers	95,006	108,468
Investments:		
Accrued interest	92,020,147	83,170,776
Dividends	32,956,677	28,138,798
Members' loans	128,494,264	116,166,466
Other	2,944,110	19,545,124
Total Receivables	<u>299,582,908</u>	<u>285,546,877</u>
TOTAL ASSETS	<u><u>\$8,567,691,823</u></u>	<u><u>\$7,820,516,515</u></u>

	June 30	
	1989	1988
LIABILITIES AND FUND BALANCES		
Liabilities:		
Retirement benefits payable	\$ 32,179,649	\$ 29,594,520
Death benefits payable	1,077,412	1,380,471
Cash overdraft	4,094,486	4,757,854
Payable for investments purchased	25,806,282	64,505,639
Accounts payable and accrued expenses	5,816,485	3,620,480
Due to general fund	0	118,792,559
Total Liabilities	68,974,314	222,651,523
Fund Balances:		
Members' annuity savings fund and accumulative interest	1,782,315,833	1,595,151,563
Contingent reserve fund	2,743,124,446	2,271,076,205
Retirement reserve fund	3,846,272,712	3,610,097,599
Special reserve fund	82,283,579	74,932,725
Contributory group insurance premium fund	44,720,939	46,606,900
Other fund	0	0
Total Fund Balances	8,498,717,509	7,597,864,992
TOTAL LIABILITIES AND FUND BALANCES	\$8,567,691,823	\$7,820,516,515

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

STATE OF NEW JERSEY TEACHERS' PENSION AND ANNUITY FUND

	Fund Balances						Totals	
	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Fund	Other Fund	Year Ended 1989	June 30 1988
REVENUES								
Contributions:								
Members	\$ 148,105,445				\$13,763,978		\$ 161,869,423	\$ 147,641,522
Employers		\$ 469,268,698					469,268,698	359,773,275
Investment revenue	113,101,969	359,612,432	\$ 249,811,658	\$ 7,350,854	3,502,516		733,379,429	726,067,839
Other						\$76,122	76,122	486,873
TOTAL REVENUES	216,207,414	828,881,130	249,811,658	7,350,854	17,266,494	76,122	1,364,593,672	1,233,969,509
EXPENSES								
Benefit payments			291,686,199				291,686,199	263,410,016
Pension adjustment expense			87,902,346				87,902,346	113,798,325
Withdrawals	12,040,963						12,040,963	9,210,015
Noncontributory group insurance death benefits		15,251,763					15,251,763	14,723,615
Other		37,631,307			19,152,455	76,122	56,859,884	22,523,587
TOTAL EXPENSES	12,040,963	52,883,070	379,588,545	0	19,152,455	76,122	463,741,155	423,665,558
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	249,166,451	775,998,060	(129,776,887)	7,350,854	(1,885,961)	0	900,852,517	810,303,951

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

STATE OF NEW JERSEY TEACHERS' PENSION AND ANNUITY FUND

	Fund Balances						Totals	
	Members' Annuity Savings Fund and Accumulative Interest	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Fund	Other Fund	Year Ended	June 30
							1989	1988
Transfers between funds:								
Retirements	(62,031,318)	(283,771,248)	345,802,566				0	0
Other	29,137	(20,178,571)	20,149,434				0	0
Fund balances at beginning of year	1,595,151,563	2,271,076,205	3,610,097,599	74,932,725	46,606,900	0	7,597,864,992	6,787,561,041
FUND BALANCES AT END OF YEAR	\$1,782,315,833	\$2,743,124,446	\$3,846,272,712	\$82,283,579	\$44,720,939	\$ 0	\$8,498,717,509	\$7,597,864,992

See notes to financial statements.

**STATE OF NEW JERSEY
 TEACHERS' PENSION AND ANNUITY FUND**

	Year Ended June 30	
	1989	1988
SOURCES OF FINANCIAL RESOURCES		
Excess of revenues over expenses	\$900,852,517	\$ 810,303,951
Items not requiring (providing) financial resources:		
Accretion and amortization—net	(4,211,919)	(3,395,108)
Net loss on sales and maturities of long-term investments	2,363,807	16,643,407
Net realized gain on Common Pension Funds A and B	(159,559,783)	(254,869,924)
	<u>739,444,622</u>	<u>568,682,326</u>
Proceeds from sales and maturities of long-term investments	241,099,145	669,544,163
Decrease (increase) in Cash Management Fund	26,158,994	(104,082,211)
Decrease (increase) in other receivables	16,601,014	(2,459,462)
Increase in retirement benefits payable	2,585,129	2,988,847
(Decrease) increase in payable for investments purchased	(38,699,357)	64,505,639
(Decrease) increase in due to general fund	(118,792,559)	118,792,559
Increase in accounts payable and accrued expenses	<u>2,196,005</u>	<u>2,593,361</u>
TOTAL SOURCES OF FINANCIAL RESOURCES	870,592,993	1,320,565,222
USES OF FINANCIAL RESOURCES		
Purchases of long-term investments	838,989,521	1,301,885,428
Increase in contribution receivables	4,641,997	4,213,864
Increase in accrued investment income	13,667,250	12,957,110
Increase in member loans	12,327,798	983,318
Decrease in death benefits payable	<u>303,059</u>	<u>1,646,979</u>
TOTAL USES OF FINANCIAL RESOURCES	869,929,625	1,321,686,699

INCREASE (DECREASE) IN CASH	663,368	(1,121,477)
CASH OVERDRAFT, beginning of year	(4,757,854)	(3,636,377)
CASH OVERDRAFT, end of year	(\$ 4,094,486)	(\$ 4,757,854)

See notes to financial statements.

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

June 30, 1989

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 other securities.

Investments in the Common Pension Funds, commingled funds in which the State of New Jersey Pension Trust Funds are the sole participants, are valued at cost, plus undistributed net realized gains. At June 30, 1989, such cumulative undistributed net realized gains amounted to \$158,651,703, consisting of \$147,766,050 in Common Pension Fund A and \$10,885,653 in Common Pension Fund B.

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 which was 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

NOTES TO FINANCIAL STATEMENTS—Continued

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

NOTE A—SIGNIFICANT ACCOUNTING POLICIES—Continued

paid by the Fund. The expenses will be included in the normal cost of employer contributions in the following year.

NOTE B—DESCRIPTION OF THE FUND

Organization: The Fund is a single-employer contributory defined benefit plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 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 statements of the State.

The Fund's designated purpose is to provide retirement benefits, medical benefits for qualified retirants and other benefits to 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 is responsible for its organization and administration.

Membership in the Fund as of March 31, 1988, 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	34,169
Active members:	
Vested	71,376
Nonvested	40,138
TOTAL	<u>111,514</u>

The following represents the membership activity concerning retirement by type and option for the fiscal year ended June 30, 1990:

Service	Early	Deferred	Accidental Disability	Ordinary Disability	Veteran	Accidental Disability	Canceled
926	399	113	76	4	562	1	10
Maximum	Option 1	Option 2	Option 3	Option 4			
1,047	390	351	265	28			

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

NOTE B—DESCRIPTION OF THE FUND—Continued

Loans Receivable: The Fund provides for member loans up to 50% of their accumulated member contributions. To obtain a loan, a member must have three years of contributions 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 benefit provisions are set by N.J.S.A. 18A:6c. The Fund provides retirement as well as medical, death and disability benefits. All benefits vest after 10 years of service, except for medical benefits which vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be $1/60$ of final average salary for each year of service credit. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit or they may elect deferred retirement after achieving 10 years of service in which case benefits would begin the first day of the month after the member attains 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.

Members are always fully vested for their own contributions and after 3 years of service credit becomes vested for 2% of related interest on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

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

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

**STATE OF NEW JERSEY
 TEACHERS' PENSION AND ANNUITY FUND**

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 March 31, 1988. The liability was determined as of March 31 and projected forward to June 30, 1988 allowing for increases in benefits and variations in the population during the three-month period.

The projected pension benefit obligation as of June 30, 1988 was:

Pension benefit obligations:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 3,549,070,000
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Current employees:

Accumulated employees contributions with interest	1,595,150,000
Employer-financed vested	6,121,520,000
Employer-financed nonvested	389,130,000

Total pension benefit obligation, including cost-of-living adjustments	<u>\$11,654,870,000</u>
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Net assets (fund balance) available for benefits at book value (market value of \$9,221,320,448)	<u>\$ 8,175,459,924</u>
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Unfunded pension benefit obligation	<u>\$ 3,479,410,076¹</u>
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¹In addition, the actuarially determined unfunded obligation for post-retirement medical premiums was \$2,200,705,968 as of June 30, 1988.

The above pension and post-retirement medical benefit obligations were calculated based on the actuarial assumptions of a) rate of return on investments of 7¼% compounded annually as compared to 7¼% used in the prior year valuation; b) salary increases ranging from 6.58%

NOTES TO FINANCIAL STATEMENTS—Continued

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

NOTE C—PENSION BENEFIT OBLIGATION—Continued

at age 25 to 2.35% at age 70 which includes inflation, merit and productivity; c) assets valued at cost or amortized cost; d) 3% increase in cost-of-living benefit provisions; e) mortality, vesting, retirement and withdrawal estimates based on tables furnished by the actuary; and f) medical premium increases of 30% in first year, 10% for the next nine years and 6.875% thereafter. The pension benefit obligation decreased by \$1,004,400,000 due to this change in the actuarial assumptions.

Legislation enacted in 1988 required cost-of-living adjustments and health care benefits for retirees to be determined actuarially, as of March 31, 1987, and required the resulting liability to be funded within 40 years. Previously, the State (General Fund) contributed the cost-of-living benefits to the Fund monthly and paid post-retirement medical premiums annually from the Health Benefits Program, both on a pay-as-you-go basis.

In accordance with the March 31, 1987 actuarial valuation and the legislation, the State Treasurer mandated that the fund begin payment of these benefits as of June 1, 1988 and assume the obligation for cost-of-living benefits from April 1, 1987. As a result, the Fund reimbursed the State (General Fund) for the cost-of-living benefits for the period April 1, 1987 to May 31, 1988 in the amount of \$118,792,559, which included interest at 6 $\frac{7}{8}$ %. This obligation is shown in the Fund's balance sheet as "Due to the General Fund" at June 30, 1988.

NOTE D—CONTRIBUTION POLICY

The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members 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 members are assigned a rate, it is not normally adjusted.

Total contributions for the year ended June 30, 1989 were \$631,138,121 (\$469,268,698 from the State and \$161,869,423 from members, or 13.3% and 4.6%, respectively, of annual covered compensation) of which \$232,955,464 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 1987 actuarial valuation.

NOTES TO FINANCIAL STATEMENTS—Continued

STATE OF NEW JERSEY TEACHERS' PENSION AND ANNUITY FUND

NOTE D—CONTRIBUTION POLICY—Continued

In accordance with the provisions of Chapter 385, P.L. 1987, contributions of the State consist of a normal contribution and an accrued liability contribution as 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 the costs for medical premiums after retirement. The Fund's actuary uses the "projected benefit method" to determine normal costs which were determined to be \$287,093,342 as of March 31, 1988, the date of the most recent actuarial valuation. 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 unfunded accrued liability for basic allowances was \$1,061,339,041 to be funded over a 33-year period commencing July 1, 1989. Additional accrued liabilities for cost-of-living adjustments and the post retirement medical premiums for qualified retirees were \$8,857,432,177 and these amounts will also be funded over a 33-year period as of July 1, 1989.

The annual interest assumption used for valuing the Fund was 6½% in 1988 and 1987. This rate differs from that used to compute the standardized measure of the pension benefit obligation discussed in Note C above which was 7¾% in 1988 and 7¼% in 1987. Other significant assumptions were the same.

NOTE E—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 Fund. Interest is applied to members' individual accounts at an annual rate established by the State Treasurer which was 6½% and 6½% for the years ended June 30, 1989 and 1988, respectively. 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

NOTES TO FINANCIAL STATEMENTS—Continued

STATE OF NEW JERSEY TEACHERS' PENSION AND ANNUITY FUND

NOTE E—DESCRIPTION OF FUND BALANCES—Continued

interest are transferred to the Retirement Reserve Fund for subsequent payment of benefits.

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 of the Fund, 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 reserve, 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 noncontributory cash death benefits and post-retirement medical benefits are made from the Contingent Reserve Fund.

Chapter 385 P.L. 1987 and Chapter 384 P.L. 1987 provides 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, including cost-of-living 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 reserves needed for the additional retirement benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (6⅞%—1989 and 6½%—1988) 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 excess interest earnings and net realized gains or losses from the sale of securities are transferred. The maximum limit on the accumulation

NOTES TO FINANCIAL STATEMENTS—Continued

STATE OF NEW JERSEY TEACHERS' PENSION AND ANNUITY FUND

NOTE E—DESCRIPTION OF FUND BALANCES—Continued

of this account is 1% of the book value of the investments of the Fund. Amounts in excess of 1% are credited to the Contingent Reserve Fund, excluding investments allocated to the Contributory Group Insurance Premium Fund which was \$39,751,022 in the Cash Management Fund at June 30, 1989.

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.

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 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 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

NOTES TO FINANCIAL STATEMENTS—Continued

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

NOTE F—INVESTMENTS—Continued

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 or pledged to 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's unconditional right to the securities.

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

	Amortized Cost	Market Value
	(In 000's)	
Bonds:		
U.S. and municipal government bonds	\$ 5,692	\$ 5,921
Industrial bonds	15,765	15,575
Telephone bonds	34,220	31,447
Gas, electric, and water bonds	110,439	101,978
Finance companies—senior debt	6,683	6,490
Railroad equipment obligations	1,470	1,411
Other	26,764	26,274
	<u>201,033</u>	<u>189,096</u>
Mortgages	1,338,758	1,356,069
Common Pension Fund A	3,282,098	4,502,324
Common Pension Fund B	3,215,169	3,298,351
State of New Jersey Cash Management Fund	231,051	231,051
TOTAL	<u><u>\$8,268,109</u></u>	<u><u>\$9,576,891</u></u>

NOTES TO FINANCIAL STATEMENTS—Continued

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

NOTE F—INVESTMENTS—Continued

Investments in excess of 5% of net assets are:

	June 30	
	<u>1989</u>	<u>1988</u>
	(In 000's)	
Common Pension Fund A	\$3,282,098	\$3,081,637
Common Pension Fund B	3,215,169	2,906,164

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 Fund's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 29 and 30.

ACTUARIAL EVALUATION

The information given below is taken from the valuation of March 31, 1988, showing the system's contributions (assets) and present and contingent benefits (liabilities) as of that date.

ASSETS

Present assets of fund creditable to:

Retirement Reserve Fund:

Credited to fund	\$3,531,922,275	
Add accrued interest creditable	165,976,662	
Add reserve transferable from Contingent Reserve Fund	21,524,876	
Total		\$3,719,423,813

Pension Fund:

Credited to fund	\$ 5,606,512	
Add accrued interest creditable	293,984	
Deduct reserve transferable to Contingent Reserve Fund	639,072	
Total		5,261,424

Annuity Savings Fund:

Credited to fund	\$1,478,226,678	
Add accrued interest creditable	63,441,018	
Total		1,541,667,696

Contingent Reserve Fund:

Credited to fund	\$1,783,780,122	
Add accrued interest creditable	88,571,164	
Add reserve transferable from Pension Fund	639,072	
Deduct reserve transferable to Retirement Reserve Fund	21,524,876	
Add excess interest earnings transferable from SRF	219,186,913	
Total		\$2,070,652,395

Special Reserve Fund:

Credited to fund	\$ 251,075,171	
Add accrued interest creditable	40,965,228	
Deduct excess interest earnings transferable	219,186,913	72,853,486
Contributory Group Insurance Premium Fund	46,039,318	

Total Present Assets

\$ 7,455,898,132

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Present value of prospective contributions of members to be made to Annuity Savings Fund		\$ 1,394,576,754
Present value of prospective contributions to the Pension Fund and the Contingent Reserve Fund including payments due July 1, 1988:		
Normal contributions		
Basic allowances with cost-of-living adjustments	\$6,007,592,176	
Accrued liability contributions		
Basic allowances with cost-of-living adjustments	<u>2,586,486,405</u>	8,594,078,581
Present value of prospective contributions to the Post Retirement Medical Fund:		
Normal contributions	\$3,861,622,590	
Accrued liability contributions	<u>578,155,695</u>	4,439,778,285
Total Prospective Assets		<u>14,428,433,620</u>
TOTAL ASSETS		<u><u>\$21,884,331,752</u></u>

LIABILITIES

Present value of benefits payable on account of beneficiaries now drawing allowances from the Retirement Reserve Fund:		
Service and early service benefits	\$3,522,682,011	
Disability benefits	110,563,760	
Benefits to dependent beneficiaries	<u>86,178,042</u>	\$ 3,719,423,813
Present value of benefits payable on account of beneficiaries now drawing allowances from the Pension Fund:		
Service and early service benefits	\$ 4,766,126	
Disability benefits	36,758	
Benefits to dependent beneficiaries	<u>458,540</u>	5,261,424

**Present value of benefits to be paid by
contributions to the Annuity Savings
Fund and the Contingent Reserve Fund:**

Service retirement allowances including early retirement and vesting of benefits	\$9,610,452,994	
Ordinary disability retirement allowances	195,846,200	
Accidental disability retirement allowances	16,176,300	
Ordinary death benefits	475,824,618	
Accidental death benefits	6,444,300	
Return of members' contributions upon withdrawal before retirement	<u>255,520,800</u>	10,560,265,212

Cost-of-Living Adjustments

3,113,563,700

**Present value of medical premiums
to be paid by contributions to the
Post Retirement Medical Fund**

4,439,778,285

**Group insurance benefits to be
paid from Contributory Group
Insurance Premium Fund**

46,039,318

TOTAL LIABILITIES

\$21,884,331,752

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 so that the contributions made by or on behalf of all covered members in the aggregate shall be sufficient to provide for the cost of the benefits payable to eligible active and retired members.

In the administration of the program certain accounts 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 prefund 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 a rate of 7.6% per annum during the policy year.

FUNDS ON DEPOSIT

	<u>Balance</u> <u>6/30/88</u>	<u>Balance</u> <u>6/30/89</u>
Dividend Accumulation	\$3,732,326	\$2,880,087
Special Reserve	—	—
Insurance Continuance	0	0
Advance Premium	0	0

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

Board of Trustees

State of New Jersey

Teachers' Pension and Annuity Fund

The analysis of funding progress and revenues by source and expenses by type of the State of New Jersey Teachers' Pension and Annuity 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

**REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS**

(In Millions)

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

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

Fiscal Year	(1) Net Assets Available For Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Obligation As A Percentage Of Covered Payroll (4) ÷ (5)
1986	\$5,003.3	\$ 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

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. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Fund.

Information for the six years prior to the year ended June 30, 1986 is unavailable.

**REQUIRED SUPPLEMENTARY INFORMATION
REVENUES BY SOURCE AND EXPENSES BY TYPE**

**STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND**

Plan Fiscal Year	REVENUES BY SOURCE				
	Member Contributions	Employer Contributions	Percentage Of Annual Covered Compensation	Investment Income	Total
1980	\$ 70,291,610	\$155,713,024	8.39%	\$192,891,718	\$ 418,896,352
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	14.12	729,876,912	1,347,251,055

Plan Fiscal Year	EXPENSES BY TYPE				
	Benefits		Withdrawals	Transfers To Other Retirement Systems	Total
	Retirement	Other			
1980	\$130,249,617	\$ 0	\$12,285,753	\$ 152,986	\$142,688,356
1981	140,422,656	0	12,490,103	109,987	153,022,746
1982	152,207,949	0	11,819,619	730,413	164,757,981
1983	162,925,554	0	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	11,742,508	10,345,403	56,592	237,739,137
1987	238,359,609	11,745,440	10,539,838	658,505	261,303,392
1988	265,731,642	14,723,615	8,523,828	686,187	289,665,272
1989	291,686,199	14,873,347	11,098,406	1,550,441	319,208,393

Contributions were made in accordance with actuarially determined contribution requirements.

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Teachers' Pension and Annuity Fund

State of New Jersey

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