

**DEPARTMENT OF
THE TREASURY**

Andrew P. Sidamon-Eristoff
State Treasurer

**DIVISION OF PENSIONS
AND BENEFITS**

Florence J. Sheppard
Acting Director

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

**BOARD OF TRUSTEES
as of June 30, 2009**

JAMES JOYNER
Chairperson

MARIE FLYNN
Vice-Chairperson

SUSANNE CULLITON
State Treasurer's Representative

PAUL ORIHEL

DENNIS TESTA

MARTHA LIEBMAN

H. O'NEIL WILLIAMS

DANIELLE BRADUS
Deputy Attorney General

MARY ELLEN RATHBUN
Board Secretary

JACQUELYN BUSSANICH
Administrative Assistant

MILLIMAN
Actuaries and Consultants

MEDICAL BOARD
David Jenkins, M.D.
William E. Ryan, M.D.



State of New Jersey
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

TO THE HONORABLE
CHRIS CHRISTIE
GOVERNOR of the STATE OF NEW JERSEY

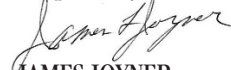
Dear Governor Christie:

The Board of Trustees of the

TEACHERS' PENSION AND ANNUITY FUND

is pleased to present the Fiscal Year 2009 Annual Report in accordance with the provisions of N.J.S.A. 18A:66-59.

Respectfully submitted,


JAMES JOYNER
Chairperson

TEACHERS' PENSION AND ANNUITY FUND BOARD OF TRUSTEES



JAMES JOYNER
Chairperson



MARIE FLYNN
Vice-Chairperson



SUSANNE CULLITON
*State Treasurer's
Representative*



PAUL ORIHTEL



DENNIS TESTA



MARTHA LIEBMAN



H. O'NEIL WILLIAMS



DANIELLE BRADUS
Deputy Attorney General



MARY ELLEN RATHBUN
Board Secretary



JACQUELYN BUSSANICH
Administrative Assistant

CHAPTER 89, P.L. 2008

Effective Date: November 1, 2008.

Description: Entitled “The Public Employee Pension and Benefits Reform Act of 2008,” this law implements a number of additional recommendations made in the report of the Joint Legislative Committee on Public Employee Benefits Reform issued during the New Jersey Legislature’s 2006 Special Session. The sections of this law and the various changes they impose are as follows:

Sections 2: SHBP Waiver Incentive For State Employees - Provides that the State as an employer, or an independent State authority, commission, board or instrumentality, may allow any employee who is eligible for other health care coverage that is not under the State Health Benefits Program (SHBP) to waive the SHBP coverage to which the employee is entitled by virtue of employment with the State or other State entity. In consideration of filing a waiver, the State or other employer may pay the employee annually an amount established at its sole discretion and not in excess of 50% of the amount saved because of the employee’s waiver of coverage.

Prior to this law’s enactment, public employers other than the State participating in the SHBP were allowed to offer a waiver incentive. Under this law, the arrangement after a waiver is the same for both State and local employees. An employee who waives coverage will be permitted to resume coverage immediately, if the employee ceases to have other health care coverage, but will be required to repay, on a pro rata basis, any amount received from the employer which represents an advance payment for a period of time during which coverage is resumed. The decision of an employer to allow its employees to waive SHBP coverage and the amount of consideration to be paid is not subject to the collective bargaining process.

Sections 3 and 4: Out-of-State Service Purchases - Prohibits pension system credit purchased for out-of-State service from being creditable towards post-retirement health care benefits. Service credit in the Teachers’ Pension and Annuity Fund (TPAF) and the Public Employees’ Retirement System (PERS), established through purchase on or after the law’s effective date by a current or future member for prior employment with another state or the federal government, or for service with a bi-state or multi-state agency in the case of a member of PERS, cannot be used to meet the requirements for employer-paid health care benefits in retirement.

Sections 5 and 11: TPAF and PERS Eligibility Salary Thresholds - Changes the eligibility criteria for becoming a member of the TPAF and of the PERS. Currently, the eligibility criteria are a minimum annual compensation of \$500 for TPAF and \$1,500 for PERS. Those same criteria will continue to apply to a person who is a TPAF or PERS member on the effective date of this law and continuously thereafter.

This law provides that, after its effective date, a person who was not a member of either retirement system on that effective date, or who was a member on that date but not continuously thereafter, and who is in public employment, office or position covered by TPAF or PERS for which the annual salary or remuneration is certified by the public entity at \$7,500 or more, will be eligible to become a member of the relevant retirement system. The \$7,500 minimum annual salary or remuneration amount will be adjusted annually by the Director of the Division of Pensions and Benefits, by regulation, in accordance with changes in the Consumer Price Index but by no more than 4 percent. “Consumer Price Index” means the average of the annual increase, expressed as a percentage, in the consumer price index for all urban consumers in the New York City and Philadelphia metropolitan statistical areas during the preceding calendar year as reported by the United States Department of Labor.

Persons ineligible for TPAF or PERS based on the new criteria may be eligible for enrollment in the Defined Contribution Retirement Program (DCRP).

Sections 12: Adjunct Faculty ABP Eligibility - Provides that an adjunct faculty member or part-time instructor at a public institution of higher education in the State whose employment agreement begins after that effective date will be eligible for membership in the Alternate Benefit Program (ABP), instead of PERS.

Sections 13 and 14: TPAF and PERS Eligibility Appeals - This law also provides that an appeal by any person who is denied membership in TPAF or PERS will be transmitted as a contested case to the Office of Administrative Law for an adjudicatory proceeding.

Section 15: SHBP Coverage for Full-Time Employees Only - Codifies into statute the current eligibility criteria for SHBP coverage, now contained in regulation, for an employee of an employer other than the State, who must work the number of hours per week as pre-

scribed by the governing body of the participating employer, which number of hours worked will be considered full-time, determined by resolution and not less than 20.

Section 16: Fraudulent SHBP Coverage a Criminal Offense - Provides that any person who knowingly obtains SHBP coverage for an ineligible person, himself or another, will be guilty of a crime of the fourth degree, punishable by imprisonment for up to 18 months or a fine of up to \$10,000, or both.

Section 17: SHBP Audits - Requires the State Health Benefits Commission to establish an audit program to ensure that only eligible employees and retirees, and their dependents, are receiving health care coverage under the SHBP.

Sections 18 to 24: Increased TPAF and PERS Retirement Age - Raises the retirement age for a benefit without any reduction, from age 60 to age 62, for members of the TPAF and the PERS who became a member of one system or the other on or after the effective date of this law.

Members of either system who became members before July 1, 2007 may retire at age 55 years with 25 years of service or at age 60 with any number of years of service without a reduction in the amount of retirement allowance the members' receive. There is a reduction in such an allowance if the member is under 55 with 25 years of service. There is also a reduction in an allowance for members of either system who became members on or after July 1, 2007 and who retire between age 55 and 60 years with 25 or more years of service. If a person became a member on or after the effective date of this law, that person must be at least 62 years of age in order to retire without a reduction in their retirement allowance.

Sections 25 and 27: Lincoln's Birthday as Paid Holiday Eliminated - Lowers, from 13 to 12, the number of paid holidays for all State government public employees. The legal holiday known as Lincoln's Birthday would no longer be considered a public holiday for the purposes of conducting State government business. On that day, State government offices are to remain open. In honor of President Lincoln and all Presidents, this law provides for the third Monday in February, known as Washington's Birthday, to be known and celebrated as Presidents Day for the purpose of a paid holiday for State employees. This provision of the law will take effect in the calendar year after the collective bargaining agreements or contracts covering a majority of the Executive Branch employees expire.

CHAPTER 23, P.L. 2009

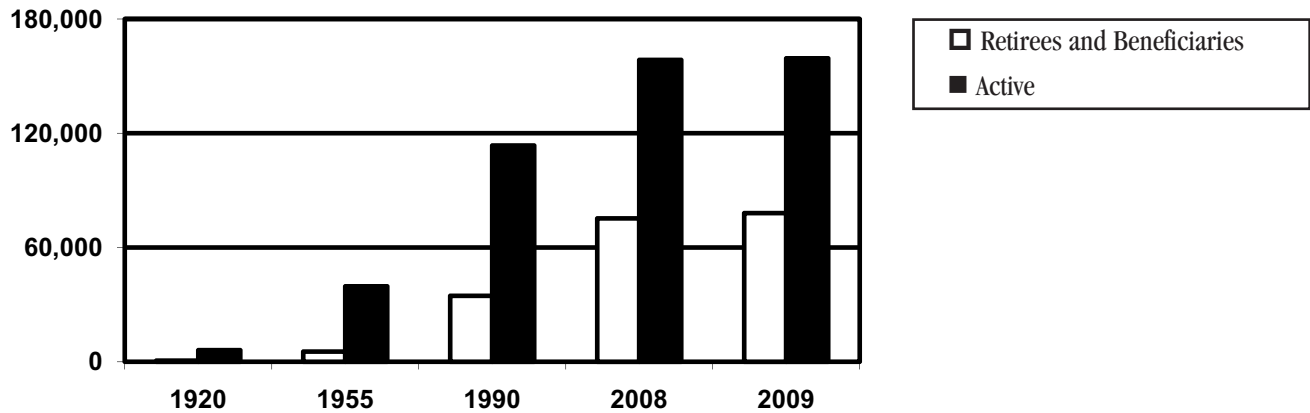
Effective Date: March 17, 2009, retroactive to June 1, 2008.

Description: This new law provides the same benefits to the survivors of an active member of the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), the Public Employees' Retirement System (PERS), or the Teachers' Pension and Annuity Fund (TPAF), who dies as a result of service in either the reserve component of the Armed Forces of the United States or the National Guard while on federal active duty as are currently provided to an active member of the respective retirement system, who dies as a result of an accident sustained in the actual performance of duty.

The provisions of this new law are retroactive to June 1, 2008.

MEMBERSHIP

- As of June 30, 2009, the active membership of the Fund totaled 159,330. This includes 276 State employees and 159,054 employees from 38 participating local employers. Inactive membership included is 13,542.
- During fiscal year 2009, there were 78,051 retirees and beneficiaries receiving annual pensions totaling \$2,805,740,059. (*This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act.*)
- Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$63,825,481.
- The Fund's assets totaled \$27,225,491,484 at the close of the fiscal year 2009.



MEMBERSHIP ACTIVITY

During fiscal year 2009, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Teachers' Pension and Annuity Fund of New Jersey.

- Enrollments - 8,611 new members were enrolled during fiscal year 2009.
- Loans - 15,917 loans were issued to members. The total loans receivable as of June 30, 2009 is \$107,397,480.
- Retirement - 4,225 members retired under the following retirement types:

<u>TYPE OF RETIREMENT</u>		<u>OPTIONS SELECTIONS</u>	
Service	2,313	Maximum	1,895
Early	172	Option 1	158
Ordinary Disability	160	Option 2	52
Accidental Disability	6	Option 3	16
Veteran	102	Option 4	8
Deferred	199	Option A	575
Over 55 — Early	1,272	Option B	315
Other	1	Option C	783
Total	4,225	Option D	423
		Other	0
		Total	4,225



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

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

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Teachers' Pension and Annuity Fund (the Fund) as of June 30, 2009 and 2008, and the related statements of changes in fiduciary net assets for the years then ended. 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 auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 as of June 30, 2009 and 2008, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures* in 2008.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions (schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The 2009 schedule of changes in fiduciary net assets by fund (schedule 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 basic financial statements taken as a whole.

KPMG LLP

February 26, 2010

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Our discussion and analysis of the financial performance of the Teachers' Pension and Annuity Fund (the Fund; TPAF) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

Financial Highlights

2009 – 2008

- Net assets held in trust for pension benefits decreased by \$7,276,663,249 as a result of fiscal year 2009 operations from \$32,315,484,077 to \$25,038,820,828.
- Additions for the year are negative \$4,353,153,615, which are comprised of member and employer pension contributions of \$718,695,104 and an investment loss of \$5,071,848,719.
- Deductions for the year are \$2,923,509,634, which are comprised of benefit and refund payments of \$2,910,762,884 and administrative expenses of \$12,746,750.

2008 – 2007

- Net assets held in trust for pension benefits decreased by \$2,211,179,058 as a result of fiscal year 2008 operations from \$34,526,663,135 to \$32,315,484,077.
- Additions for the year are \$521,007,639, which are comprised of member and employer pension contributions of \$1,287,384,733 and an investment loss of \$766,377,094.
- Deductions for the year are \$2,732,186,697, which are comprised of benefit and refund payments of \$2,718,399,257 and administrative expenses of \$13,787,440.

The Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets

This annual report consists of two financial statements: *The Statements of Fiduciary Net Assets* and *The Statements of Changes in Fiduciary Net Assets*. These financial statements report information about the Fund and about its activities to help you assess whether the Fund, as a whole, has improved or declined as a result of the year's activities. The financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period they are earned, and expenses are recorded in the year they are incurred, regardless of when cash is received or paid.

The Statements of Fiduciary Net Assets show the balances in all of the assets and liabilities of the Fund at the end of the fiscal year. The difference between assets and liabilities represents the Fund's fiduciary net assets. Over time, increases or decreases in the Fund's fiduciary net assets provide one indication of

(Continued)

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

Management's Discussion and Analysis

June 30, 2009 and 2008

whether the financial health of the Fund is improving or declining. *The Statements of Changes in Fiduciary Net Assets* show the results of financial operations for the year. The statements provide an explanation for the change in the Fund's fiduciary net assets since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes, including the required supplementary schedules, to determine whether the Fund is becoming financially stronger or weaker.

Financial analysis

Summary of Fiduciary Net Assets

2009 – 2008

	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>
Assets	\$ 27,225,491,484	38,137,002,946	(10,911,511,462)
Liabilities	<u>2,186,670,656</u>	<u>5,821,518,869</u>	<u>(3,634,848,213)</u>
Net assets	<u>\$ 25,038,820,828</u>	<u>32,315,484,077</u>	<u>(7,276,663,249)</u>

The Fund's assets primarily consist of investments, securities lending collateral, contributions due from members and participating employers, accrued investment income and members loans receivable. Between fiscal years 2009 and 2008, total assets decreased by \$10.9 billion or 28.6%. This is mainly due to a decrease in the fair value of investments and the securities lending collateral.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, contributory and non-contributory group insurance premiums payable to the Fund's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of TPAF for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities decreased by a net \$3.6 billion or 62.4% due to a decrease in the securities lending collateral and rebates payable of \$3.7 billion and an increase of \$28.0 million in retirement benefits payable and other payables.

Net assets held in trust for pension benefits decreased by \$7.3 billion or 22.5%.

Summary of Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>(Decrease)</u>
Assets	\$ 38,137,002,946	42,479,670,284	(4,342,667,338)
Liabilities	<u>5,821,518,869</u>	<u>7,953,007,149</u>	<u>(2,131,488,280)</u>
Net assets	<u>\$ 32,315,484,077</u>	<u>34,526,663,135</u>	<u>(2,211,179,058)</u>

The Fund's assets primarily consist of investments, securities lending collateral, contributions due from members and participating employers, accrued investment income and members loans receivable. Between fiscal years 2008 and 2007, total assets decreased by \$4.3 billion or 10.2%. This is mainly due to a decrease in the fair value of investments and the securities lending collateral.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Management's Discussion and Analysis

June 30, 2009 and 2008

Liabilities consist of retirement benefits payable to retirees and beneficiaries, contributory and non-contributory group insurance premiums payable to the Fund's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of TPAF for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities decreased by a net \$2.1 billion or 26.8% due to a decrease in the securities lending collateral and rebates payable of \$2.3 billion and an increase of \$168.8 million in retirement benefits payable due to full accrual of the July 1, 2008 payroll and other payables.

Net assets held in trust for pension benefits decreased by \$2.2 billion or 6.4%.

Summary of Changes to Fiduciary Net Assets

2009 – 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 616,222,799	585,800,133	30,422,666
Employer contributions	102,472,305	701,584,600	(599,112,295)
Net investment loss	<u>(5,071,848,719)</u>	<u>(766,377,094)</u>	<u>(4,305,471,625)</u>
Total additions	<u>(4,353,153,615)</u>	<u>521,007,639</u>	<u>(4,874,161,254)</u>
Deductions:			
Benefits	2,869,565,540	2,677,682,713	191,882,827
Refunds of contributions	41,197,344	40,716,544	480,800
Administrative and miscellaneous expenses	<u>12,746,750</u>	<u>13,787,440</u>	<u>(1,040,690)</u>
Total deductions	<u>2,923,509,634</u>	<u>2,732,186,697</u>	<u>191,322,937</u>
Changes in net assets	<u>\$ (7,276,663,249)</u>	<u>(2,211,179,058)</u>	<u>(5,065,484,191)</u>

Additions consist of member and employer contributions and earnings from investment activities. Member contributions increased by \$30.4 million or 5.2% due to normal salary and membership increases.

Employer contributions decreased by \$599.1 million or 85.4% over last year.

The State made a contribution of \$64.43 million for fiscal year 2009, which was received in September 2009 after the close of the fiscal year. The amount contributed for fiscal year 2009 was equal to 4.8% of the actuarially determined statutory amount.

Net investment income decreased by \$4.3 billion or 561.8% due to depreciation of investments.

The total investment return for all pension funds was estimated to be 14.27% loss compared to 2.66% loss in the prior year.

(Continued)

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Deductions are comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund. Benefit payments increased by \$191.9 million or 7.2% partly due to an increase in the number of retirees. The amount of refunds processed increased by \$0.5 million or 1.2%. Administrative expenses decreased by \$1.0 million or 7.5%.

Summary of Changes to Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 585,800,133	523,997,776	61,802,357
Employer contributions	701,584,600	693,759,318	7,825,282
Net investment loss	(766,377,094)	4,874,924,850	(5,641,301,944)
Total additions	<u>521,007,639</u>	<u>6,092,681,944</u>	<u>(5,571,674,305)</u>
Deductions:			
Benefits	2,677,682,713	2,453,552,981	224,129,732
Refunds of contributions	40,716,544	36,509,132	4,207,412
Administrative and miscellaneous expenses	13,787,440	12,343,927	1,443,513
Total deductions	<u>2,732,186,697</u>	<u>2,502,406,040</u>	<u>229,780,657</u>
Changes in net assets	<u>\$ (2,211,179,058)</u>	<u>3,590,275,904</u>	<u>(5,801,454,962)</u>

Additions consist of member and employer contributions and earnings from investment activities. Member contributions increased by \$61.8 million or 11.8% due to normal salary and membership increases.

Employer contributions increased by \$7.8 million or 1.1% over last year.

The State made a contribution of \$664.40 million for fiscal year 2008. The amount contributed in fiscal year 2008 was equal to 42.85% of the actuarially determined amount.

Net investment income decreased by \$5.6 billion or 115.7% due to a decrease in the net appreciation of the fair value of investments.

The total investment return for all pension funds was estimated to be 2.66% loss compared to 17.1% gain in the prior year.

Deductions are comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund. Benefit payments increased by \$224.1 million or 9.1% partly due to an increase in the number of retirees. The amount of refunds processed increased by \$4.2 million or 11.5%. Administrative expenses increased by \$1.4 million or 11.7%.

(Continued)

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

Management's Discussion and Analysis

June 30, 2009 and 2008

Retirement System as a Whole

The overall funded ratios are 70.8% for fiscal year 2009 and 74.7% for fiscal year 2008.

Contacting System Financial Management

The financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

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

Statements of Fiduciary Net Assets

June 30, 2009 and 2008

	2009	2008
Assets:		
Cash	\$ 2,936,186	2,669,431
Securities lending collateral	1,892,972,399	5,564,888,940
Investments, at fair value:		
Cash Management Fund	685,734,480	1,131,188,753
Bonds	—	24,989,838
Common Pension Fund A	6,514,571,407	10,771,711,127
Common Pension Fund B	8,656,407,224	9,125,629,231
Common Pension Fund D	4,739,918,199	7,367,324,079
Common Pension Fund E	3,981,648,973	3,381,778,527
Mortgages	51,882,265	61,541,363
Total investments	24,630,162,548	31,864,162,918
Receivables:		
Contributions:		
Members	83,068,268	81,169,563
Employers	137,600,439	81,544,023
Accrued interest and dividends	303,904,231	336,832,198
Members' loans	168,157,525	200,379,133
Other	6,689,888	5,356,740
Total receivables	699,420,351	705,281,657
Total assets	27,225,491,484	38,137,002,946
Liabilities:		
Accounts payable and accrued expenses	35,108,366	27,328,756
Retirement benefits payable	246,290,108	226,238,012
Non-contributory group insurance premiums payable	3,203,635	3,063,161
Securities lending collateral and rebates payable	1,902,068,547	5,564,888,940
Total liabilities	2,186,670,656	5,821,518,869
Net assets:		
Held in trust for pension benefits	\$ 25,038,820,828	32,315,484,077

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Additions:		
Contributions:		
Members	\$ 616,222,799	585,800,133
Employers	102,472,305	701,584,600
Total contributions	<u>718,695,104</u>	<u>1,287,384,733</u>
Investment income:		
Net depreciation in fair value of investments	(5,910,267,629)	(2,016,278,945)
Interest	615,308,504	932,221,554
Dividends	226,755,534	320,891,700
	<u>(5,068,203,591)</u>	<u>(763,165,691)</u>
Less investment expense	3,645,128	3,211,403
Net investment loss	<u>(5,071,848,719)</u>	<u>(766,377,094)</u>
Total additions	<u>(4,353,153,615)</u>	<u>521,007,639</u>
Deductions:		
Benefits	2,869,565,540	2,677,682,713
Refunds of contributions	41,197,344	40,716,544
Administrative and miscellaneous expenses	12,746,750	13,787,440
Total deductions	<u>2,923,509,634</u>	<u>2,732,186,697</u>
Change in net assets	<u>(7,276,663,249)</u>	<u>(2,211,179,058)</u>
Net assets – beginning of year	<u>32,315,484,077</u>	<u>34,526,663,135</u>
Net assets – end of year	<u>\$ 25,038,820,828</u>	<u>32,315,484,077</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2009 and 2008

(1) Description of the Fund

The State of New Jersey Teachers' Pension and Annuity Fund (the Fund; TPAF) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. The Fund is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement benefits, death, disability and medical benefits to certain qualified 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 who have titles that are unclassified, professional and certified. The Fund's Board of Trustees is primarily responsible for the administration of the Fund.

According to the State of New Jersey Administrative Code, all obligations of the Fund will be assumed by the State of New Jersey should the Fund terminate.

In 2008, the Fund adopted the provisions of GASB Statement No. 50, *Pension Disclosures*.

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the Fund. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit, as defined. 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, as defined, or they may elect deferred retirement after achieving ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

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

Eligible retirees 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 a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits (COLA) after 24 months of retirement.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60, plus 3% for every year under age 55.

Chapter 89, P.L. 2008 increased the TPAF eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008; increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 1, 2008 and retiring with 25 years of service to 1% for every year between age 55 and 62, plus 3% for every year under age 55.

Membership and Contributing Employers

Membership in the Fund consisted of the following at June 30, 2008 and 2007, the dates of the most recent actuarial valuations:

	2008	2007
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	76,068	72,748
Active members:		
Vested	76,368	75,235
Nonvested	79,719	79,861
Total active members	156,087	155,096
Total	232,155	227,844
Contributing employers	38	38

(2) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Fund is accounted for using an economic resources measurement focus.

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net assets of the Fund. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the Fund conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans*. Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of seven of the defined benefit plans (PERS, TPAF, JRS, PFRS, CPFPPF, SPRS and POPF). The Division of Investment separately reports the assets, liabilities and net assets of the underlying investment portfolio of the seven defined benefit plans in its Pension Fund report. The Division of Investment accounts included in the Pension Fund report are: Common Fund A, Common Fund B, Common Fund D, Common Fund E, Police and Firemen's Mortgage Program accounts and other investments owned directly by the seven defined benefit pension plans (the Pension Funds). Common Fund A invests primarily in domestic equity securities. Common Fund B invests primarily in domestic fixed income securities. Common Fund D invests primarily in foreign equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real assets and absolute return strategy investments. The Police and Firemen's Retirement System includes a mortgage loan program administered by the New Jersey Housing and Mortgage Finance Agency that provides participants with mortgages from the program at rates which are fixed by formula. The law establishing the program provides that the Fund may not sell the mortgages, and no independent market exists for them.

Investments are reported at fair value as follows:

- U.S. Government and Agency, Foreign and Corporate obligations – prices quoted by a major dealer in such securities.
- Common Stock and Equity Funds, Foreign Equity Securities, Forward Foreign Exchange Contracts – closing prices as reported on the primary market or exchange on which they trade.
- Money Market Instruments – amortized cost which approximates fair value.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.
- Mortgages – priced by a major dealer in such securities and reviewed by management for reasonableness.
- Alternative investments (private equity, real estate, real asset, and absolute return strategy funds) – estimated fair value provided by the general partner and/or investment manager and reviewed by management. The inputs into the determinations of fair value (particularly for private equity and real estate) require significant management judgment or estimation. Because by their very nature, alternative investments are not always readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the value that would be used if a ready market for such investments existed. The development of fair value is further complicated by (1) the current lack of liquidity in the financial system and (2) the extreme levels of volatility in the market for public equity in general and for debt securities linked to these asset classes. For these reasons, the realized value received upon the sale of these investments in the open market might be different than the fair value reported in the financial statements.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

Investment transactions are accounted for on a trade or investment date basis. Gains and losses from investment transactions are determined by the average cost method. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date.

The net asset value of Common Funds A, B, D and E (Common Funds) is determined as of the close of the last day of business of each month. Purchases and redemptions of participants' units are transacted each month within fifteen days subsequent to that time and are recorded at such net asset value.

Dividends and interest earned per unit are calculated monthly and distributed quarterly for Common Fund A and B. Dividends and interest earned per unit are calculated monthly for Common Fund D, and the income earned on Common Fund D units is reinvested. Income earned per unit is calculated monthly for Common Fund E, and the income earned on Common Fund E units is reinvested.

Securities Lending

The State Investment Council policies permit Common Funds A, B and D and several of the direct pension plan portfolios to participate in securities lending programs, whereby securities are loaned to brokers or other borrowers and, in return, the pension funds have rights to the collateral received. All of the securities held in Common Funds A, B and D, and certain securities held directly by the pension plans, are eligible for the securities lending program. Collateral received may consist of cash, letters of credit, or government securities having a market value equal to or exceeding 102% (U.S. dollar denominated) or 105% (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. For Common Funds A and B, in the event that the market value of the collateral falls below 101% of the market value of all the outstanding loaned securities to an individual borrower, additional collateral shall be transferred by the borrower to the respective funds no later than the close of the next business day so that the market value of such additional collateral, when added to the market value of the other collateral, shall equal 102% of the market value of the loaned securities. For Common Fund D, in the event that the market value of the collateral falls below the collateral requirement of either 102% or 105% (depending on whether the securities are denominated in U.S. dollars or a foreign currency, respectively) of the market value of the outstanding loaned securities to an individual borrower, additional collateral shall be transferred in an amount that will increase the aggregate of the borrower's collateral to meet the collateral requirements. The securities lending contracts do not allow the Common Funds to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2009 and 2008, the Common Funds have no aggregate credit risk exposure to brokers because the collateral amount held by the Common Funds exceeded the market value of the securities on loan.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

The contracts with the Common Funds' securities lending agent require them to indemnify the Common Funds if the brokers or other borrowers fail to return the securities or fail to pay the Common Funds for income distributions on the securities while they are on loan. The Common Fund D securities lending agent also indemnifies the Common Funds for any loss of principal or interest on the invested collateral. For any losses on the investment collateral in Common Funds A or B or other pension plan portfolios, the lending fee paid to the lending agent shall be reduced by 25% of the amount of such loss, up to an amount not to exceed 75% of the previous six months' securities lending fees. The securities loans can be terminated by notification by either the borrower or the Common Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment (or, in the case of floating rate notes, to the next interest rate reset date) of the cash collateral.

Derivatives

The Division of Investment, from time to time, utilizes forward foreign currency contracts, a derivative security, as a means to hedge against the currency risk in the Common Funds' foreign equity and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

The fair value of foreign forward currency contracts held directly by the Common Funds as of June 30, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Forward currency receivable	\$ 4,865,537,164	1,353,214,830
Forward currency payable	4,739,424,464	1,358,471,309
Net unrealized gain (loss)	126,112,700	(5,256,479)

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The Common Funds enter into covered calls when they write (or sell) call options on underlying stocks held by the Common Funds

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

or stock indices. The Common Funds enter into covered put options when they purchase put options on underlying stocks held by the Common Funds or stock indices. The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of call options receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. The Common Funds had written call options on 25,737,000 shares, and these options had a fair value of \$10,862,850 as of June 30, 2009. The Common Funds had written call options on 5,661,100 shares with a fair value of \$895,504 as of June 30, 2008. The Common Funds owned 10,295,000 put option contracts on the S&P 500 index with a fair value of \$22,717,250 as of June 30, 2009. The Common Funds owned 880,000 put option contracts on the S&P 500 index with a fair value of \$72,334,000 as of June 30, 2008. Put option contracts are included in investments in the accompanying financial statements.

Certain alternative investment funds and partnerships may use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the Common Funds may have additional exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds. The Common Funds recognize the fair value of all derivative instruments as either an asset or liability in the accompanying financial statements with the offsetting gains or losses recognized in earnings.

Members' Loans

Members who have at least three years of service in the Fund may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears a commercially reasonable interest rate. Members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any benefits or continuing their monthly loan payment schedule into retirement.

Under the Internal Revenue Service regulations effective January 1, 2004, the Division changed its pension loan repayment policy: Members who take multiple loans must repay the outstanding balance of the original loan, and all subsequent loans taken before the original loan is completely paid off, within a period not to exceed 5 years from the issuance of the first loan taken after January 1, 2004. Failure to repay the loan within the five-year period will result in the unpaid balance being declared a taxable distribution.

Chapter 92, P.L. 2007 eliminated the 4% fixed rate of interest for loans from the defined benefit plans and provided that the rate of interest will be set by the State Treasurer at a commercially reasonable rate as required by the Internal Revenue Code and permitted that an administrative processing fee may be charged for such loans. As such, effective January 1, 2008, an \$8.00 processing fee per loan was charged, and the new pension loan interest rate became 4.69% per year for year 2008 and 3.33% for year 2009.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Administrative Expenses

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund to the State of New Jersey, Department of the Treasury, and are included in the accompanying financial statements.

Miscellaneous expenses and reimbursements from the Fund that comprise various adjustments to member and employer accounts are incorporated into the administrative expense amounts included in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Funded Status and Funding Progress

The required supplementary information regarding the funded status and funding progress is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under State statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Actuarial Methods and Assumptions

In the June 30, 2008 and 2007 actuarial valuations, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the Fund. The actuarial assumptions included (a) 8.25% for investment rate of return and (b) 5.74% for projected salary increases as of June 30, 2008 and 2007.

Actuarial valuation date	June 30, 2008	June 30, 2007
Actuarial value of assets	\$ 36,664,627,629	\$ 36,714,578,745
Actuarial accrued liability	51,754,814,521	49,161,247,363
Unfunded actuarial accrued liability	15,090,186,892	12,446,668,618
Funded ratio	70.8%	74.7%
Covered payroll	\$ 9,419,083,203	\$ 9,077,628,813
Unfunded actuarial accrued liability as a percentage of covered payroll	160.2%	137.1%
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, open	Level percent, open
Payroll growth rate for amortization	4.00%	4.00%
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.74%	5.74%
Cost-of-living adjustments	1.80%	1.80%

(3) Investments

The Fund is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 39.15%, 39.95%, 38.23%, 49.31%, and 3.44%, respectively, of each investment total of the Pension Fund as of June 30, 2009.

The Fund is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 44.36%, 43.57%, 41.13%, 33.41%, and 4.23%, respectively, of each investment total of the Pension Fund as of June 30, 2008.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The Pension Funds' investments as of June 30 are as follows:

	<u>2009</u>	<u>2008</u>
Domestic equities	\$ 16,372,011,087	23,849,523,038
International equities	11,998,610,775	14,728,747,252
Domestic fixed income	20,694,709,131	20,276,259,245
International fixed income	30,760,749	2,913,035,116
Bank loan funds	1,027,830,211	—
Police and Fireman's mortgages	1,367,881,305	1,288,049,378
Private equity funds	2,982,420,463	2,850,167,142
Real estate funds	1,588,971,807	1,916,228,663
Absolute return strategy funds	2,743,253,999	3,739,013,571
Real asset funds	547,120,061	975,518,400
	<u>\$ 59,353,569,588</u>	<u>72,536,541,805</u>

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division of Investment and the role of the Council is to formulate investment policies. The Council issues regulations which establish guidelines for permissible investments which include domestic and international equities and exchange traded funds, covered call and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies, bank loans, interest rate swap transactions, credit default swaps, fixed income exchange traded funds, U.S. Treasury futures contracts, New Jersey State and Municipal general obligations, public authority revenue obligations, collateralized notes and mortgages, commercial paper, certificates of deposit, repurchase agreements, bankers acceptances, guaranteed income contracts, funding agreements, money market funds, private equity funds, real estate funds, other real assets, absolute return strategy funds, and the State of New Jersey Cash Management Fund (CMF). The CMF is a short-term cash fund and is open to state and certain nonstate participants.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The Pension Funds' investment in the Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Pension Funds.

The Fund's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Custodial credit risk, as it relates to investments, is the risk that in the event of a bank failure, the Pension Funds will not be able to recover the value of investments or collateral securities that are in the possession of the third party. The Pension Funds' investment securities are not exposed to custodial credit risk as they are held in segregated trust accounts in the name of the Pension Funds with the custodians.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments is evaluated by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in United States treasury and government agency obligations. Council regulations require minimum credit ratings for certain categories of fixed income obligations held directly by the Pension Funds and limit the amount that can be invested in any one issuer or issue.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

Effective July 1, 2008, these limits were as follows:

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of one issuer (3)
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of any one issuer (2)(3); not more than 10% of fund assets can be invested in this category
International government and agency obligations	Baa3	BBB-	BBB-	25%	Greater of 25% or \$10 million	---
Collateralized notes and mortgages	Baa3	BBB-	BBB-	---	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Common Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	---	---	---
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	---	---	
International	Aa3/P-1	AA-/A-1	AA-/F1	---	---	
Credit default swap transactions (4)	A1	A+	A+	---	---	Nominal value of net exposure to any one counterparty shall not exceed 10% of fund assets
Guaranteed income contracts and funding agreements	A3	A-	A-	---	---	---
Money market funds	---	---	---	---	---	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions (5)	A1	A+	A+	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 2% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue
Non-convertible preferred stocks of US corporations (4)	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible stock of any one corporation
Bank loans (4)	Baa3	BBB-	BBB-	—	—	Not more than 10% of fund assets can be invested in this category

(1) Short term ratings (e.g. P-1, A-1, F1) are used for commercial paper and certificates of deposit.

(2) Prior to December 15, 2008, this restriction only applied to maturities exceeding 12 months.

(3) Prior to December 15, 2008, this restriction applied to debt only.

(4) Effective December 15, 2008.

(5) Prior to December 15, 2008, the minimum rating requirements were A3 (Moody's) and A- (S&P and Fitch).

Effective December 15, 2008, up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above. Prior to that, the limitation excluded bank loans and non-convertible preferred stock.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

Effective September 5, 2006 through June 30, 2008, the following limits were effective:

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in any one issuer with maturities exceeding 12 months; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Aa3	AA-	AA-	25%	Greater of 25% or \$10 million	Not more than 1% of fund assets can be invested in any one issuer
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Money market funds	—	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions	A3	A-	A-	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 10% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue

(1) Short term ratings (e.g. P-1, A-1, F-1) are used for commercial paper and certificates of deposit.

Effective August 20, 2007, up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, finance company debt, bank debentures, international corporate obligations, collateralized notes, and mortgages and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above; prior to that, the limitation was 5% of the market value of Common Fund B.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category as of June 30, 2009 and 2008. The first table of 2009 is for bonds rated by Moody's. The second table of 2009 uses S&P ratings not rated by Moody's.

		June 30, 2009										
		Moody's rating										
(In thousands)		Aaa	Aa	A	Baa	Ba	B	Bb	C	Ca	Caa	Totals
United States Treasury TIPS	\$	3,317,891	—	—	—	—	—	—	—	—	—	3,317,891
United States Treasury bonds		2,238,574	—	—	—	—	—	—	—	—	—	2,238,574
United States Treasury strips		664,234	—	—	—	—	—	—	—	—	—	664,234
United States Treasury notes		49,612	—	—	—	—	—	—	—	—	—	49,612
Title XI Merchant Marine notes		1,828	—	—	—	—	—	—	—	—	—	1,828
Government agency obligations		200,236	—	—	—	—	—	—	—	—	—	200,236
Government agency strips		522,265	—	—	—	—	—	—	—	—	—	522,265
Floating rate notes		—	—	11,294	26,825	2,525	6,285	—	—	—	2,450	49,379
Corporate obligations		367,489	1,411,812	4,146,458	3,565,825	230,477	148,640	214	124	20,796	67,577	9,959,412
Convertible bonds		—	—	—	27,289	50	527	—	—	—	801	28,667
Federal farm credit/FHL bank bonds		74,151	—	—	—	—	—	—	—	—	—	74,151
Federal home loan discounted bonds		41,360	—	—	—	—	—	—	—	—	—	41,360
International corporate obligations		—	129,361	705,097	648,390	16,264	28,180	—	569	—	2,615	1,530,476
International bonds and notes		70,745	85,047	—	—	—	—	—	—	—	—	155,792
International floating rate notes		—	—	—	—	—	1,540	—	—	—	—	1,540
Foreign government obligations		29,885	303,592	24,817	—	—	—	—	—	—	—	358,294
Municipal bonds		—	11,131	23,954	1,574	—	—	—	—	—	—	36,659
Remic/FHLMC/FNMA		618,437	—	—	—	—	—	—	—	—	—	618,437
Mortgages/FHLMC/FNMA/GNMA		139,418	—	—	—	—	—	—	—	—	—	139,418
Asset backed obligations		32,499	29,604	98	105,046	—	—	—	—	—	—	167,247
SBA passthrough certificates		170,589	—	—	251	—	238	—	—	—	—	171,078
Private export obligations		24,985	—	—	—	—	—	—	—	—	—	24,985
High yield structured notes		—	—	—	—	—	—	—	—	—	79,076	79,076
	\$	<u>8,564,198</u>	<u>1,970,547</u>	<u>4,911,718</u>	<u>4,375,200</u>	<u>249,316</u>	<u>185,410</u>	<u>214</u>	<u>693</u>	<u>20,796</u>	<u>152,519</u>	<u>20,430,611</u>

		June 30, 2009								
		Standard & Poor's rating								
(In thousands)		A	AA	B	BB	BBB	CC	CCC	D	Totals
Corporate obligations	\$	26,627	—	—	—	1,194	1,009	1,803	1,101	31,734
Convertible bonds		—	—	—	1,376	—	—	—	—	1,376
International corporate obligations		—	—	570	923	—	—	—	45	1,538
Asset backed obligations		—	21,181	—	—	—	—	—	—	21,181
	\$	<u>26,627</u>	<u>21,181</u>	<u>570</u>	<u>2,299</u>	<u>1,194</u>	<u>1,009</u>	<u>1,803</u>	<u>1,146</u>	<u>55,829</u>

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

The 2009 tables above do not include certain domestic and international corporate obligations including certain exchange traded funds (ETFs) totaling \$239,029,550 which invest in an underlying portfolio of fixed income securities and do not have a Moody's, Standard & Poor's or Fitch rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

(In thousands)	June 30, 2008						
	Moody's rating						
	Aaa	Aa	A	Baa	Ba	B	Caa
United States Treasury TIPS	\$ 3,573,893	—	—	—	—	—	—
United States Treasury bonds	3,914,404	—	—	—	—	—	—
United States Treasury strips	622,327	—	—	—	—	—	—
Title XI merchant marine notes	2,646	—	—	—	—	—	—
United States government agency	78,910	—	—	—	—	—	—
Federal home loan bank notes	—	—	—	—	—	—	—
and bonds	120,820	—	—	—	—	—	—
Federal home loan discounted bonds	6,670	—	—	—	—	—	—
Floating rate notes	28,070	—	—	—	—	—	—
Tennessee Valley Authority strips	166,919	—	—	—	—	—	—
Domestic corporate obligations	428,516	674,633	3,024,990	2,642,103	90,580	41,315	84,813
Domestic corporate discounted	—	—	—	—	—	—	—
obligations	105,177	—	4,879	—	—	—	—
International corporate obligations	—	—	205,817	193,352	—	—	—
Real estate investment trust	—	—	—	19,391	—	—	—
obligations	—	—	—	268,772	—	86,584	64,347
Finance company debt	385,235	476,076	744,296	—	—	—	—
Foreign government obligations	1,077,186	150,700	—	—	—	—	—
Foreign government discount	—	—	—	—	—	—	—
obligations	879,287	—	—	—	—	—	—
Adjustable rate municipal bonds	31,000	135,665	135,000	—	—	—	—
International bonds and notes	298,755	20,274	67,775	19,889	—	—	—
Remic/FHLMC	546,377	—	—	—	—	—	—
Remic/FNMA	50,343	—	—	—	—	—	—
SBA pass-through certificates	100,373	—	—	—	—	—	—
GNMA mortgage backed certificates	148,306	—	—	—	—	—	—
FHLM mortgage backed certificates	440,058	—	—	—	—	—	—
FNMA mortgage backed certificates	448,589	—	—	—	—	—	—
Asset backed obligations	63,791	119,057	—	139,267	—	—	—
Private export obligations	85,742	—	—	—	—	—	—
Exchange traded securities	—	—	131,820	—	—	4,700	—
	\$ 13,603,394	1,576,405	4,314,577	3,282,774	90,580	132,599	149,160

The 2008 table does not include certain exchange traded funds (ETFs) totaling \$39,805,000 which invest in an underlying portfolio of fixed income securities and do not have a Moody's rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature within 270 days. Certificates of deposits and bankers acceptances are limited to a term of one year or less. Repurchase agreements must mature within 30 days. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

The following tables summarize the maturities (or, in the case of Remics, Police and Firemen's Mortgages and mortgage-backed securities, the expected average life) of the fixed income portfolio as of June 30, 2009 and 2008:

(In thousands)	June 30, 2009				
	Fixed income investment type	Total fair value	Maturities in years		
Less than 1			1-5	6-10	
United States Treasury TIPS	\$ 3,317,891	—	—	—	3,317,891
United States Treasury bonds	2,238,574	—	—	—	2,238,574
United States Treasury strips	664,234	—	—	—	664,234
United States Treasury notes	49,612	—	—	49,612	—
Title XI merchant marine notes	1,828	—	—	—	1,828
Government agency obligations	200,236	—	—	—	200,236
Government agency strips	522,266	—	—	—	522,266
Floating rate notes	49,379	13,216	6,023	3,440	26,700
Corporate obligations	9,991,476	54,324	572,727	3,051,119	6,313,306
Convertible bonds	40,146	50	2,246	1,281	36,569
Federal farm credit/FHL bank bonds	74,151	—	—	74,151	—
Federal home loan discounted bonds	41,360	—	—	—	41,360
International corporate obligations	1,532,266	390	14,444	308,715	1,208,717
International bonds and notes	155,791	—	—	155,791	—
International floating rate notes	11,540	—	10,000	1,540	—
Foreign government obligations	368,205	15,174	24,623	75,192	253,216
Municipal bonds	36,659	—	—	—	36,659
Remic/FHLMC/FNMA	618,437	—	20,344	—	598,093
Police & firemen's obligations	1,367,881	—	—	—	1,367,881
Mortgages/FHLMC/FNMA/GNMA	139,419	—	7,340	4,224	127,855
Asset backed obligations	233,536	—	—	15,284	218,252
SBA passthrough certificates	171,078	—	238	170,840	—
Private export obligations	24,985	—	—	24,985	—
High yield structured notes	79,076	—	79,076	—	—
	\$ 21,930,026	83,154	737,061	3,936,174	17,173,637

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)	Total	June 30, 2008			
		Maturities in years			
Fixed income investment type	market value	Less than 1	1-5	6-10	More than 10
United States Treasury TIPS	\$ 3,573,893	—	—	369,231	3,204,662
United States Treasury bonds	3,914,404	—	—	—	3,914,404
United States Treasury strips	622,327	—	—	—	622,327
Title XI merchant marine notes	2,646	—	—	—	2,646
United States government agency	78,910	—	—	—	78,910
Federal home loan bank notes and bonds	120,820	—	—	38,492	82,328
Federal home loan discounted bonds	6,670	—	—	—	6,670
Floating rate notes	28,071	—	18,071	10,000	—
Tennessee Valley Authority strips	166,919	—	—	—	166,919
Domestic corporate obligations	6,986,947	4,993	756,272	1,655,983	4,569,699
Domestic corporate discounted obligations	110,056	—	8,234	—	101,822
International corporate obligations	399,169	—	—	69,560	329,609
Real estate investment trust obligations	19,391	—	19,391	—	—
Finance company debt	2,025,311	154,379	183,305	989,819	697,808
Foreign government obligations	1,227,887	70,477	230,400	45,001	882,009
Foreign government discount obligations	879,287	879,287	—	—	—
Adjustable rate municipal bonds	301,665	—	—	—	301,665
International bonds and notes	406,693	—	25,795	196,102	184,796
Remic/FHLMC	546,377	—	—	19,647	526,730
Remic/FNMA	50,343	—	—	—	50,343
SBA pass-through certificates	100,373	—	—	100,373	—
Police and Firemen's mortgages	1,288,049	—	—	—	1,288,049
GNMA mortgage backed certificates	148,306	—	—	—	148,306
FHLM mortgage backed certificates	440,058	6	181	1,820	438,051
FNMA mortgage backed certificates	448,589	339	2,146	11,959	434,145
Asset backed obligations	322,115	—	31,144	14,594	276,377
Private export obligations	85,743	12,547	21,219	51,977	—
	<u>\$ 24,301,019</u>	<u>1,122,028</u>	<u>1,296,158</u>	<u>3,574,558</u>	<u>18,308,275</u>

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Pension Funds invest in global markets. Effective August 20, 2007, the market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government and agency obligations, cannot exceed 30% of the market value of the Pension Funds; previously, this limitation was 22%. The market value of emerging market securities cannot exceed more than 1.5 times the percentage derived by dividing the total market capitalization of companies included in the Morgan Stanley Capital International (MSCI) Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Fund D. Not more than 10% of the market value of the emerging market securities can be invested in the common and preferred stock of any one corporation; the total amount of stock purchased of any one corporation cannot exceed 5% of its stock classes eligible to vote. Council regulations permit the Pension Funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio. The Pension Funds held forward contract receivables totaling approximately \$4.9 billion and payables totaling approximately \$4.7 billion

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

(with a \$126 million net exposure) as of June 30, 2009. The Pension Funds held forward contracts totaling approximately \$1.4 billion (with a \$5.3 million net exposure) as of June 30, 2008.

The Pension Funds had the following foreign currency exposure as of June 30, 2009 and 2008 (expressed in U.S. dollars and in thousands):

June 30, 2009				
Currency	Total fair value	Equities	Foreign government/ corporate obligations	Alternative investments
Australian dollar	\$ 656,680	656,680	—	—
Brazilian real	91,406	91,406	—	—
British pound sterling	1,557,089	1,542,240	—	14,849
Canadian dollar	186,979	186,979	—	—
Chilean peso	3,407	3,407	—	—
Czech koruna	7,828	7,828	—	—
Danish krone	186,258	186,258	—	—
Euro	3,706,589	3,484,999	29,885	191,705
Egyptian pound	19,003	19,003	—	—
Hong Kong dollar	457,362	457,362	—	—
Hungarian forint	7,456	7,456	—	—
Indonesian rupiah	31,511	31,511	—	—
Israeli shekel	14,258	14,258	—	—
Japanese yen	1,944,838	1,944,838	—	—
Malaysian ringgit	12,409	12,409	—	—
Mexican peso	9,001	9,001	—	—
Norwegian krone	176,722	176,722	—	—
Pakistan rupee	2,378	2,378	—	—
Philippines peso	711	711	—	—
Polish zolty	7,104	7,104	—	—
Singapore dollar	172,635	172,635	—	—
South African rand	89,543	89,543	—	—
South Korean won	105,001	105,001	—	—
Swedish krona	165,297	164,422	875	—
Swiss franc	879,433	879,433	—	—
New Taiwan dollar	10,823	10,823	—	—
Thailand baht	25,597	25,597	—	—
Turkish lira	39,062	39,062	—	—
	<u>\$ 10,566,380</u>	<u>10,329,066</u>	<u>30,760</u>	<u>206,554</u>

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

June 30, 2008					
Currency		Total market value	Equities	Foreign government obligations	Alternative investments
Australian dollar	\$	614,583	456,834	157,749	—
Brazilian real		118,301	118,301	—	—
Canadian dollar		546,560	546,560	—	—
Chilean peso		1,286	1,286	—	—
Czech koruna		4,512	4,512	—	—
Danish krone		205,512	205,512	—	—
Euro		6,983,288	5,829,751	1,005,136	148,401
Egyptian pound		20,424	20,424	—	—
Hong Kong dollar		263,291	263,291	—	—
Hungarian forint		6,528	6,528	—	—
Indonesian rupiah		22,783	22,783	—	—
Israeli shekel		14,716	14,716	—	—
Japanese yen		2,822,687	1,943,400	879,287	—
Malaysian ringgit		18,557	18,557	—	—
Mexican peso		19,444	19,444	—	—
New Zealand dollar		18,052	18,052	—	—
Norwegian krone		451,099	451,099	—	—
Omani rial		1,991	1,991	—	—
Pakistan rupee		2,679	2,679	—	—
Philippines peso		1,050	1,050	—	—
Polish peso		9,910	9,910	—	—
Qatar rial		4,497	4,497	—	—
Singapore dollar		135,551	135,551	—	—
South African rand		69,675	69,675	—	—
South Korean won		110,363	110,363	—	—
Swedish krona		521,596	521,596	—	—
Swiss franc		1,460,269	1,460,269	—	—
New Taiwan dollar		13,978	13,978	—	—
Thailand baht		17,001	17,001	—	—
Turkish lira		27,871	27,871	—	—
British pound sterling		1,970,705	1,916,931	—	53,774
	\$	<u>16,478,759</u>	<u>14,234,412</u>	<u>2,042,172</u>	<u>202,175</u>

The Pension Funds' interests in alternative investments may contain elements of credit, currency and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Effective August 18, 2008, Council regulations provide that not more than 28% of the market value of the Pension Funds can be invested in alternative investments, with the individual categories of real estate, real assets, private equity and absolute return

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

strategy investments limited to 7%. Prior to that, the overall limitation was 18%. Not more than 5% of the market value of Common Fund E, plus outstanding commitments, may be committed to any one partnership or investment, without the prior written approval of the Council. The investments in Common Fund E cannot comprise more than 20% of any one investment manager's total assets.

(4) **Securities Lending Collateral**

The Fund's share in the securities lending program is 39.52% and 43.37% of the total market value of the collateral as of June 30, 2009 and 2008, respectively.

The securities lending collateral is subject to various risks. Among these risks are credit risk, concentration of credit risk, and interest rate risk. Agreements with the lending agents require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue. These limits are consistent with Council regulations and internal policies for funds managed by the Division of Investment.

Effective December 15, 2008, the following limits became effective:

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	A2	A	A	10%	25%	—
Collateralized notes and mortgages	Aa	AA	AA	—	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances:						Certificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Domestic	A2/P-1	A/A-1	A/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A2	A	A	-	—	Limited to 5% of the assets of the collateral portfolio
Money market funds	—	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

Effective September 5, 2006 through December 14, 2008, the following limits were effective:

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	---
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	---
Collateralized notes and mortgages	Baa3	BBB-	BBB-	---	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	---	---	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances:						Certificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Domestic	A3/P-1	A-/A-1	A-/F1	---	---	
International	Aa3/P-1	AA-/A-1	AA-/F1	---	---	
Guaranteed income contracts and funding agreements	A3	A-	A-	---	---	Limited to 5% of the assets of the collateral portfolio
Money market funds	---	---	---	---	---	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

Prior to December 15, 2008, all investments in the collateral portfolio matured or were redeemed within one year, except that up to 25% of the portfolio could be invested in eligible securities which matured within 25 months; provided, however, that the average maturity of all investments did not exceed one year. Effective December 15, 2008, all investments in the collateral portfolio must mature or be redeemed within one year.

Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 30 days. Certificates of deposit and banker's acceptances must mature in one year or less.

(Continued)

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

Notes to Financial Statements

June 30, 2009 and 2008

The collateral for repurchase agreements is limited to obligations of the U.S. Government or certain U.S. Government agencies, collateralized notes and mortgages and corporate obligations meeting certain minimum rating criteria.

Total exposure to any individual issuer is limited, except for U.S. Treasury and Government agency obligations. For money market funds, the total amount of shares or units purchased or acquired of any money market fund shall not exceed 5% of the shares or units outstanding of said money market fund. For Collateralized notes and mortgages, not more than 2% and 5% of the assets of the collateral portfolio shall be invested in the obligations of any one issuer and issue, respectively. For Guaranteed income contracts and funding agreements, the total investment in any one issuer shall be limited to 2.5% of the collateral portfolio. Prior to December 15, 2008, the Division of Investment set individual issuer limits for Commercial paper and Certificate of deposits; subsequently, the Division of Investment set issuer limits for all investments in the collateral portfolio.

For securities exposed to credit risk in the collateral portfolio, the following tables disclose aggregate market value, by major credit quality rating category as of June 30, 2009 and 2008.

(In thousands)	June 30, 2009							
	Rating							
	Aaa/AAA	Aa/AAA	Aa/AA	a/AA	Aa/A	A/A	A/AA	Not rated
Corporate obligations	\$ —	99,755	642,443	15,001	109,694	759,910	169,039	29,603
Commercial paper	—	—	—	—	—	—	—	199,970
Certificates of deposit	—	—	100,000	—	100,039	—	—	50,000
Guaranteed investment contracts	—	—	100,000	—	—	—	150,000	—
Repurchase agreements	—	—	—	—	—	—	—	1,726,824
Money market funds	151,555	—	—	—	—	—	—	315,697
United States agencies	70,020	—	—	—	—	—	—	—
Cash	—	—	—	—	—	—	—	11
	<u>\$ 221,575</u>	<u>99,755</u>	<u>842,443</u>	<u>15,001</u>	<u>209,733</u>	<u>759,910</u>	<u>319,039</u>	<u>2,322,105</u>

At June 30, 2009, all investments in the collateral portfolio will mature in less than one year.

(In thousands)	June 30, 2008									
	Rating									
	Aaa/AAA	Aaa/AA	Aa/AAA	Aa/AA	Aa/A	A/A	AA/A	A/Baa	Baa/BBB	Not rated
Corporate obligations	\$ 711,148	269,317	224,455	2,835,773	570,502	1,796,638	9,988	142,151	139,676	—
Commercial paper	—	—	—	—	200,000	—	—	—	—	—
Certificates of deposit	—	—	—	608,740	753,645	—	—	—	—	—
Repurchase agreements	—	—	—	—	—	—	—	—	—	3,110,553
Asset backed securities	431,457	—	—	104,024	—	—	—	—	—	—
Money market funds	507,192	—	—	—	—	—	—	—	—	377,979
Cash	—	—	—	—	—	—	—	—	—	315
	<u>\$ 1,649,797</u>	<u>269,317</u>	<u>224,455</u>	<u>3,548,537</u>	<u>1,524,147</u>	<u>1,796,638</u>	<u>9,988</u>	<u>142,151</u>	<u>139,676</u>	<u>3,488,847</u>

At June 30, 2008, if an issuer and/or security have both a long-term and short-term rating, the short-term rating is presented.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

As of June 30, 2009, the Pension Funds had outstanding loaned investment securities with an aggregate fair value of \$4,666,568,972 and received cash collateral with an aggregate fair value of \$4,803,489,627 and noncash collateral of \$13,474,666. As of June 30, 2008, the Pension Funds had outstanding loaned investment securities with an aggregate fair value of \$12,580,839,859 and received cash collateral with an aggregate fair value of \$12,793,553,099 and non-cash collateral of \$70,403,098. In accordance with GASB accounting standards, the noncash collateral is not reflected in the accompanying financial statements. There were no borrower or lending agent default losses, and no recoveries or prior-period losses during the year.

(5) Contributions

The contribution policy is set by N.J.S.A. 18:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The full normal employee contribution rate became 5.5% of annual compensation, effective July 1, 2007 based on Chapter 103, P.L. 2007. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

Chapter 103, P.L. 2007 also provided that for members hired on or after July 1, 2007, the amount of compensation used for employer and member contributions and benefits under the TPAF cannot exceed the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act.

The State made a contribution of \$64.43 million, which was received in September 2009 after the close of the fiscal year, excluding the State's contribution of non-contributory group insurance (NCGI) of \$31.49 million, early retirement incentives (ERI) of \$1.61 million, and others of \$4.94 million for fiscal year 2009. The State made a contribution of \$664.40 million, excluding the State's contribution of NCGI of \$31.48 million, ERI of \$0.99 million, and others of \$4.71 million for fiscal year 2008. The amounts contributed for fiscal years 2009 and 2008 are equal to 4.8% and 42.85% of the actuarially determined statutory amounts, respectively.

(6) Funds

TPAF maintains the following legally required funds as follows:

Members' Annuity Savings and Accumulative Interest Fund (2009 – \$8,516,171,923; 2008 – \$7,986,454,125)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the Fund. Interest earned on member contributions is credited to the Accumulative Interest Fund. Member withdrawals are paid out of this Fund.

(Continued)

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Notes to Financial Statements

June 30, 2009 and 2008

Contingent Reserve Fund (2009 – \$-12,874,495,068; 2008 – \$-3,211,185,452)

The Contingent Reserve Fund is credited with the contributions of contributing employers. Interest earnings, after crediting the Accumulative Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums and administrative expenses are made from this Fund.

Retirement Reserve Fund (2009 – \$29,264,887,048; 2008 – \$27,416,178,909)

The Retirement Reserve Fund is the account from which retirement benefits including cost-of-living adjustments are paid. Upon retirement of a member, accumulated contributions together with accumulated interest, are transferred to the Retirement Reserve Fund from the Members' ASF and Accumulative Interest Fund. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal years 2009 and 2008) is credited to the Retirement Reserve Fund.

Special Reserve Fund (2009 – \$0; 2008 – \$0)

The Special Reserve Fund is the fund to which excess earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are applied. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the Fund, excluding Cash Management Fund investments, as well as bonds during fiscal year 2008, allocated to the Contributory Group Insurance Premium Fund which amounted to \$133.97 million and \$126.79 million as of June 30, 2009 and 2008, respectively. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund (2009 – \$132,256,925; 2008 – \$124,036,495)

The Contributory Group Insurance Premium Fund represents the accumulation of member group insurance 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 the first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for active members is 0.4 of 1% of salary, as defined.

Non-Contributory Group Insurance Premium Fund (2009 – \$0; 2008 – \$0)

The Non-Contributory Group Insurance Premium Fund represents the accumulation of employer group insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the noncontributory death benefit program plus reserves held by the insurance carrier. Members are eligible by statute for the noncontributory group insurance plan in the first year of membership.

(7) Income Tax Status

Based on a May 2007 declaration of an outside tax council retained by the Attorney General of the State of New Jersey, the Fund complies with the qualification requirements of Section 401(a) of the Internal Revenue Code.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information

Schedule of Funding Progress

(Unaudited - See accompanying independent auditors' report)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (overfunded) actuarial accrued liability (b - a)	Funded ratio (a / b)	Covered payroll (c)	Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll ((b - a) / c)
June 30, 1999	\$ 27,457,451,678	25,546,083,289	(1,911,368,389)	107.5%	\$ 6,254,198,406	(30.6)%
June 30, 2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.2	6,571,641,181	(42.6)
June 30, 2001	35,351,379,511	32,745,357,185	(2,606,022,326)	108.0	6,948,381,383	(37.5)
June 30, 2002	35,148,246,433	35,146,591,842	(1,654,591)	100.0	7,348,993,141	—
June 30, 2003	34,651,825,932	37,383,732,882	2,731,906,950	92.7	7,702,854,159	35.5
June 30, 2004	34,633,790,549	40,447,690,339	5,813,899,790	85.6	8,047,272,269	72.2
June 30, 2005	34,789,389,875	43,967,927,299	9,178,537,424	79.1	8,454,072,109	108.6
June 30, 2006	35,531,294,790	46,539,868,653	11,008,573,863	76.3	8,748,623,186	125.8
June 30, 2007	36,714,578,745	49,161,247,363	12,446,668,618	74.7	9,077,628,813	137.1
June 30, 2008	36,664,627,629	51,754,814,521	15,090,186,892	70.8	9,419,083,203	160.2

(Continued)

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

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited - See accompanying independent auditors' report)

Significant actuarial methods and assumptions used in the most recent 2008 and 2007 actuarial valuations include the following:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, open	Level percent, open
Payroll growth rate for amortization	4.00%	4.00%
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.74%	5.74%
Cost-of-living adjustments	1.80%	1.80%

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

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited - See accompanying independent auditors' report)

Year ended June 30	Annual required contribution	Employer contributions ⁽¹⁾⁽³⁾	Percentage contributed
1999	\$ 314,671,482	258,816,649	82.2%
2000	368,904,564	—	—
2001	—	—	N/A
2002	—	—	N/A
2003	194,435,594	—	—
2004	686,284,850	—	—
2005	883,460,483	—	—
2006	1,177,674,055	94,226,363 ⁽²⁾	8.0
2007	1,407,249,580	690,794,259	49.1
2008	1,550,503,835	695,275,811	44.8
2009	1,601,478,508	95,863,972	6.0

Notes to schedule:

(1) Excludes post-retirement medical contributions and contributions received from other State of New Jersey retirement systems or funds for certain members who transferred their eligible prior service credit to the Teachers' Pension and Annuity Fund.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to cover, in full or in part, the employer pension contributions.

(2) As of June 30, 2005 actuarial valuation, the assets in the Benefit Enhancement Fund were fully depleted. In fiscal year 2006, the State started to make a contribution to the Fund to satisfy the actuarially accrued liability.

(3) Differences between the amounts in the employer contribution column in this schedule and the amounts recorded in the financial statements and footnotes are attributed to timing differences between the 2008 actuarial valuations and the actual amounts received in fiscal year 2009. Employer contributions per this schedule represent anticipated contribution amounts determined at the time the actuarial valuations were prepared and finalized prior to the end of fiscal year 2009. The financial statements and footnotes reflect the actual amounts received in 2009.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2009

	Members' annuity savings and accumulative interest fund	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Fund	Non-Contributory Group Insurance Premium Fund	Total
Additions: Contributions: Members Employers Total contributions Distribution of net investment income (loss) Total additions	\$ 577,664,760 --- 577,664,760 599,160,814 1,176,825,574	--- 70,984,540 70,984,540 (7,982,814,550) (7,911,830,010)	--- --- 2,309,804,910 2,309,804,910	--- --- --- ---	38,558,039 --- 38,558,039 2,000,107 40,558,146	--- --- 31,487,765 31,487,765 --- 31,487,765	616,222,799 102,472,305 718,695,104 (5,071,848,719) (4,353,153,615)
Deductions: Benefits Refunds of contributions Administrative and miscellaneous expenses Total deductions Net increase (decrease) before transfers among reserves	--- 40,312,781 --- 40,312,781	--- 884,563 12,746,750 13,631,313	2,805,740,059 --- --- 2,805,740,059	--- --- --- ---	32,337,716 --- --- 32,337,716	31,487,765 --- --- 31,487,765	2,869,565,540 41,197,344 12,746,750 2,923,509,634
Transfers among reserves: Retirements Other Net increase (decrease)	1,136,512,793 (609,314,707) 2,519,712 529,717,798	(7,925,461,323) (1,162,012,448) (575,835,845) (9,663,309,616)	(495,935,149) 1,771,327,155 573,316,133 1,848,708,139	--- --- --- ---	8,220,430 --- --- 8,220,430	--- --- --- ---	(7,276,663,249) --- --- (7,276,663,249)
Net assets held in trust for pension and post-retirement medical benefits: Beginning of year End of year	7,986,454,125 \$ 8,516,171,923	(3,211,185,452) (12,874,495,068)	27,416,178,909 29,264,887,048	--- ---	124,036,495 132,236,925	--- ---	32,315,484,077 25,038,820,828