



**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Financial Statements and Supplementary Schedules

June 30, 2016

(With Independent Auditors' Report Thereon)

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Financial Statements and Supplementary Schedules

June 30, 2016

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Short Hills, NJ 07078-2702

## **Independent Auditors' Report**

The Treasurer  
State of New Jersey:

We have audited the accompanying financial statements of the fiduciary activities of the State of New Jersey, Division of Pensions and Benefits (the Division), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of the State of New Jersey, Division of Pensions and Benefits, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



### ***Emphasis of Matter***

#### *Adoption of New Accounting Pronouncement*

As discussed in note 2(k) to the basic financial statements, as of July 1, 2015, the Division adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

#### *Reporting Entity*

As discussed in note 2(a) to the financial statements, the financial statements referred to above are intended to present the financial position and the changes in financial position of the fiduciary funds administered by the Division. As a result, these financial statements do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2016 and the changes in its financial position, or, where applicable, its cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules included under Required Supplementary Information in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The schedules included under Supplementary Information in the accompanying table of contents (the Schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**KPMG LLP**

Short Hills, New Jersey  
March 14, 2017

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

(Unaudited)

June 30, 2016

Our discussion and analysis of the financial performance of the fiduciary funds (the Funds) administered by the Division of Pensions and Benefits (the Division) provides an overview of the Funds' financial activities for the State fiscal year ended June 30, 2016. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

**Financial Highlights**

***Fiduciary Funds – Pension Trust and Other Postemployment Benefit Plans***

- Fiduciary net position decreased by \$6.2 billion as a result of this year's operations, from \$85.4 billion to \$79.2 billion.
- Additions for the year are \$11.3 billion, which are comprised of member, employer, nonemployer and employer specific pension contributions of \$12.0 billion and investment loss of \$0.7 billion.
- Deductions for the year are \$17.5 billion, which are comprised of benefit and refund payments of \$17.4 billion and administrative expenses of \$52.6 million.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of two components: 1) fiduciary fund financial statements and 2) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Fiduciary Funds***

Fiduciary funds are used to account for the assets that the Division holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

The Division administers eighteen fiduciary funds: twelve pension trust funds, three other postemployment benefit plans, and three agency funds.

The statement of fiduciary net position for the pension trust, other postemployment benefit plans, and agency funds presents the Division's assets and liabilities by major categories and may serve over time as a useful indicator of the Division's financial position. The difference between assets and liabilities represents the net position held in trust for pension and other postemployment benefit plans.

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**DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

(Unaudited)

June 30, 2016

The statement of changes in fiduciary net position for the pension trust and other postemployment benefit plans provides information on the change in the Division's net position during the current year. Additions are comprised of investment income and member, employer, nonemployer and employer specific contributions. Deductions include retirement and health benefit payments, refunds of contributions, and administrative expenses.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements and includes a description of the fiduciary funds.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which includes information regarding the changes in net pension liability and related ratios, employer contributions and investment returns for the pension trust plans as well as the funding status and employer contributions for the other postemployment benefit plans.

**Financial Analysis**

**Summary of Fiduciary Net Position**  
**Pension Trust and Other Postemployment Benefit Plans**

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 10,351,800	9,388,816	962,984
Receivables	2,465,714,126	2,428,479,945	37,234,181
Investments	76,392,664,285	82,738,194,058	(6,345,529,773)
Securities lending collateral	1,298,508,410	1,060,832,090	237,676,320
Members' loans and mortgages	<u>2,242,910,998</u>	<u>2,026,450,681</u>	<u>216,460,317</u>
Total assets	<u>82,410,149,619</u>	<u>88,263,345,590</u>	<u>(5,853,195,971)</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	970,445,524	899,264,872	71,180,652
Retirement benefits payable	866,831,486	828,772,890	38,058,596
Noncontributory group life insurance premiums payable	29,272,362	27,443,236	1,829,126
Administrative expense payable	18,127,373	20,504,604	(2,377,231)
Cash overdraft	—	424,213	(424,213)
Securities lending collateral and rebates payable	<u>1,296,943,638</u>	<u>1,059,479,792</u>	<u>237,463,846</u>
Total liabilities	<u>3,181,620,383</u>	<u>2,835,889,607</u>	<u>345,730,776</u>
Net position	<u>\$ 79,228,529,236</u>	<u>85,427,455,983</u>	<u>(6,198,926,747)</u>

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DIVISION OF PENSIONS AND BENEFITS**

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(Unaudited)

June 30, 2016

Assets of the pension trust and other postemployment benefit plans consist of cash and cash equivalents, investments, contributions due from members, participating employers and nonemployers, accrued interest and dividends on investments, other receivables, securities lending collateral, and members' loans. Between State fiscal years 2015 and 2016, total assets decreased by \$5.9 billion or 6.6%. This is attributable to a decrease of \$6.3 billion in investments primarily attributable to the withdrawal of funds to cover benefit payments in excess of contributions received.

Liabilities of the pension trust and other postemployment benefit plans consist of retirement benefits payable to retirees and beneficiaries, noncontributory group life insurance (NCGI) premiums payable to the Funds' insurance provider, securities lending collateral and rebates payable, administrative expense payable, and, classified under accounts payable and accrued expenses, outstanding medical claims payable to the medical providers under the other postemployment benefit plans. Also included within accounts payable and accrued expenses are liabilities of the pension trust funds for unclaimed member accounts and checks issued to members that have not been negotiated by the members, but remain due and payable. Total liabilities increased by \$345.7 million or 12.2%. This is due to an increase in securities lending collateral and rebates payable of \$237.5 million and an increase of \$108.2 million in all other payables.

Net position of the pension trust and other postemployment benefit plans decreased by \$6.2 billion or 7.3%.

**Summary of Fiduciary Net Position  
Agency Funds**

	<b>2016</b>	<b>2015</b>	<b>Decrease</b>
Assets	\$ 80,470,543	81,363,133	(892,590)
Liabilities	80,470,543	81,363,133	(892,590)
Net position	\$ —	—	—

Assets of the agency funds consist of cash and cash equivalents, investments and contributions due from the State and local employers. Between State fiscal years 2015 and 2016, total assets decreased by \$0.9 million or 1.1%. This is attributable to the decreased amount invested in the Cash Management Fund (CMF) of \$2.6 million, offset by an increase of \$1.7 million in cash and cash equivalents.

Liabilities in the agency funds vary according to each plan. In the Alternate Benefit Program (ABP), they include reimbursements to state and county colleges, reimbursement to the State of New Jersey general fund of any unused appropriations, and NCGI benefits payable. In the Dental Expense Program (DEP), they include claims payable, and in the Pension Adjustment Fund (PAF), they include liabilities for payroll and amounts due to the State of New Jersey general fund and other pension trust funds. Between State fiscal years 2015 and 2016, total liabilities decreased by \$0.9 million or 1.1%. This was comprised of a \$0.3 million decrease in liabilities in PAF, a \$1.4 million decrease in liabilities in DEP, and a \$0.8 million increase in ABP liabilities.



**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

(Unaudited)

June 30, 2016

**Summary of Changes in Fiduciary Net Position**  
**Pension Trust and Other Postemployment Benefit Plans**

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
<b>Additions:</b>			
Member contributions	\$ 2,728,399,275	2,651,633,067	76,766,208
Employer contributions	8,371,079,575	7,900,744,380	470,335,195
Nonemployer contributions	860,429,467	615,834,289	244,595,178
Employer specific contributions	15,215,218	46,538,152	(31,322,934)
Net investment (loss)/income	(648,664,619)	3,341,282,108	(3,989,946,727)
Total additions	<u>11,326,458,916</u>	<u>14,556,031,996</u>	<u>(3,229,573,080)</u>
<b>Deductions:</b>			
Benefits	17,270,398,926	16,210,276,964	1,060,121,962
Refunds of contributions	202,432,865	204,178,357	(1,745,492)
Administrative expenses	52,553,872	52,323,840	230,032
Total deductions	<u>17,525,385,663</u>	<u>16,466,779,161</u>	<u>1,058,606,502</u>
Change in net position	<u>\$ (6,198,926,747)</u>	<u>(1,910,747,165)</u>	<u>(4,288,179,582)</u>

Additions of the pension trust and other postemployment benefit plans consist of member, employer, nonemployer and employer specific contributions and earnings from investment activities. There was a decrease of \$3.2 billion or 22.2% in total additions attributable to a decrease in net investment income of \$4.0 billion and a net increase of \$0.8 billion in member, employer, nonemployer and employer specific contributions in State fiscal year 2016 as compared to State fiscal year 2015.

Member contributions increased by \$76.8 million overall, of which a \$41.0 million increase was attributable to the other postemployment benefit funds and a \$35.8 million increase was attributable to the pension trust funds. In the State Health Benefit Program (SHBP) – State, the member contributions increased by \$39.2 million or 10.0%, in SHBP – Local, the member contributions increased by \$0.1 million or 0.3%, and in SHBP – Education, the member contributions increased by \$1.7 million or 3.2%. Active employee contributions in SHBP – State, Local, and Education increased as a result of Chapter 78, P.L. 2011 premium share requirements and rate increases in plan year 2016. In plan year 2016, the active employee group rate for SHBP – State increased by 4.5%, in SHBP – Local the increase was 6.0%, and in SHBP – Education the increase was 7.6%.

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For the pension trust funds, the increase in member contributions is attributable to the higher member contribution rates for the Teachers' Pension and Annuity Fund (TPAF), Public Employees' Retirement System (PERS) and the Judicial Retirement System (JRS) pension trust funds as required in Chapter 78, P.L. 2011.

The State contributed \$1,307.1 million to the pension trust funds in State fiscal year 2016. It was composed of \$207.1 million of normal cost and \$1,100.0 million of accrued liability. The contributions were as follows: \$764.5 million to TPAF, \$354.6 million to PERS, \$138.3 million to the Police & Firemen's Retirement System (PFRS), \$14.0 million to JRS, \$35.6 million to the State Police Retirement System (SPRS), and \$148 thousand to the Consolidated Police and Firemen's Pension Fund (CPFPPF).

State NCGI contributions for the State fiscal year totaling \$75.3 million were as follows: \$35.6 million for TPAF, \$29.1 million for PERS, \$7.9 million for PFRS, \$0.8 million for JRS, and \$1.9 million for SPRS. Between State fiscal years 2015 and 2016, the State's contribution toward noncontributory group life insurance increased by \$68.0 thousand due to higher claims activity. State noncontributory life insurance benefits are funded on a pay-as-you-go basis. The local contributions for PERS and PFRS are included in the annual billings to local employers.

The annual local employer pension appropriation billings increased per the actuarial valuation as of July 1, 2014. For PERS, the amount accrued in State fiscal year 2015 for normal contribution, accrued liability, and NCGI was \$859.7 million and was due on April 1, 2016. For State fiscal year 2016, the total amount accrued was \$888.3 million and is due April 1, 2017. For PFRS, the total amount accrued in State fiscal year 2015 for normal contributions, accrued liability, and NCGI was \$813.0 million and was due April 1, 2016. For State fiscal year 2016, the total amount accrued was \$815.2 million and is due April 1, 2017.

SHBP – State employer contributions increased by \$73.4 million. For SHBP – Local, employer contributions increased by \$36.2 million. For SHBP – Education, employer contributions increased by \$158.2 million. These increases are primarily attributable to rate increases effective January 1, 2015 and 2016.

The pension trust funds and other postemployment benefit plans experienced a net investment loss of \$649 million in fiscal year 2016 as compared to a net investment gain of \$3.3 billion for fiscal year 2015. Fiscal year 2016 was a challenging investment year as global equity markets realized negative returns. Non-U.S. equity markets underperformed as tepid economic growth persisted with emerging market equities adversely impacted by commodity price weakness and a slowdown in China. Negative returns for stocks were somewhat offset by a more constructive fixed income market as global monetary easing and a flight to safety in the midst of market uncertainty contributed to positive bond returns and, in some cases, led to negative yields. Real estate and other alternative asset classes outperformed global stocks and fixed income, somewhat offset by disappointing returns in certain hedge fund strategies. Within real estate, returns were favorable across all property types and regions, supported by strong demand from both offshore and domestic investors, overall low levels of construction keeping supply balanced in many markets, renewed interest in income producing assets in a low growth economy, and attractive yields relative to other asset classes. Private equity exhibited positive performance as strong valuations and low borrowing costs buoyed returns.

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In reference to Schedule of Investment Returns – Annual Money-Weighted Rate of Return, Net of Investment Expense (see Required Supplementary Information Schedule 3), the fiscal year 2016 rate was (1.15%) compared to 4.08% of the prior year. It was based on Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*.

Deductions of the pension trust funds and other postemployment benefit plans are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Funds to operate the pension trust funds and other postemployment benefit plans. Also included are claim charges for the self-insured health and prescription drug benefit programs. Between State fiscal years 2015 and 2016, benefit payments increased by \$1,060.1 million or 6.5% due to an increase in the number of retirees receiving retirement and other benefits. The number of refunds processed decreased by \$1.7 million or 0.9% compared to last year. Administrative expenses increased by \$0.2 million or 0.4%.

The change in net position of \$4.3 billion was mainly attributable to the decrease in investment income and increase in benefit payments when comparing State fiscal year 2016 to State fiscal year 2015.

**Investment Performance**

The rates of return (i.e. investment performance, which includes income and changes in the fair value of investments) for TPAF, PERS, PFRS, JRS, SPRS, CPFPPF and Prison Officers' Pension Funds, collectively, the Pension Funds, and various market indices are as follows:

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

(Unaudited)

June 30, 2016

	<b>Year ended June 30</b>	
	<b>2016</b>	<b>2015</b>
Total rate of return (%):		
Total Pension Funds	(0.93)%	4.09%
Absolute Return Hedge Funds	(1.20)	3.79
Risk Mitigation	(1.20)	3.79
Cash Equivalents	1.26	0.84
Short-term Cash Equivalents	0.74	0.18
TIPS	3.62	(2.35)
U.S. Treasuries	6.00	1.61
Total Liquidity	2.69	(0.27)
Investment Grade Credit	6.57	2.23
High Yield Fixed Income	2.96	2.74
Credit Oriented Hedge Funds	(1.04)	0.78
Debt Related Private Equity	2.00	10.49
Debt Related Real Estate	1.05	8.24
Total Income	3.67	2.85
Commodities	(7.82)	(20.86)
Private Real Assets	(1.65)	1.22
Real Estate	11.97	14.89
Total Real Return	6.30	5.02
U.S. Equity	(1.58)	7.48
Non-U.S. Developed Markets Equity	(9.60)	(3.81)
Emerging Markets Equity	(10.81)	(7.53)
Equity Oriented Hedge Funds	(13.07)	7.41
Buyout/Venture Capital Funds	6.73	18.66
Total Global Growth	(3.62)	4.91
Opportunistic Private Equity <sup>(1)</sup>	(0.92)	N/A
Returns of Various Market Indices (%):		
S&P Composite 1500 Index	3.64	7.31
S&P 500 Index	3.98	7.42
Dow Jones Industrial Average	4.50	7.21
Barclays U.S. Government/Credit Index	6.70	1.69
Barclays Long Government/Credit Index	15.72	1.94
MSCI EAFE - Net (Developed Non-U.S.)	(10.16)	(4.22)
MSCI Emerging Market Free - Net	(12.05)	(5.12)
HFRI Fund of Funds Index <sup>(3)</sup>	(5.97)	6.10
NCREIF Property Index <sup>(2)</sup>	12.62	12.98
Cambridge Private Equity Index <sup>(2)</sup>	3.23	10.55
U.S. Treasury bills (3 month)	0.19	0.02

<sup>(1)</sup> Category commenced during fiscal year 2016.

<sup>(2)</sup> Reported with one quarter lag.

<sup>(3)</sup> Reported with one month lag.

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**Overall Financial Condition of the Funds**

Based on the GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB No. 25* (GASB Statement No. 67) and actuaries' GASB 67 disclosures for State fiscal years as of June 30, 2015 and 2016, for the defined benefit pension trust funds, the combined state and local ratios of plan fiduciary net position as a percentage of the total pension liability was 30.93%, and the net pension liability as a percentage of covered payroll was 655.6%. For the prior year, the combined state and local ratios of plan fiduciary net position as a percentage of the total pension liability was 37.5%, and the net pension liability as a percentage of covered payroll was 529.7%.

For SHBP – Local, total expenses incurred exceeded total revenues recognized by \$27.2 million, decreasing the surplus at the beginning of the year from \$294.1 million to \$266.9 million at year end. Similarly, for SHBP – Education, total expenses incurred exceeded total revenues recognized by \$72.1 million, decreasing the surplus at the beginning of the year from \$144.9 million to \$72.8 million at year end. For SHBP – State, total expenses incurred exceeded total revenues recognized by \$123.0 million, further increasing the deficit at the beginning of the year from \$121.6 million to \$244.6 million at year end.

For the other postemployment benefit plans for State fiscal year 2016, based on the current actuarial valuation dated July 1, 2015, the State had a \$25.9 billion unfunded actuarial accrued liability (UAAL) under GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, for SHBP – State active and retired members and a \$41.6 billion UAAL for SHBP – Education employees and retirees that become the obligation of the State of New Jersey upon retirement. In comparison, based on the prior year actuarial valuation, the State had a \$24.5 billion UAAL for SHBP – State active and retired members and a \$40.6 billion UAAL for SHBP – Education employees and retirees. Major factors that contributed to the increase in the UAAL include the following: (1) the State continues to fund post-retirement medical benefits on a pay-as-you-go basis as opposed to funding on an actuarial reserve basis; (2) new mortality assumption tables were utilized in the July 1, 2015 valuation, which assume longer life expectancies as compared to the prior mortality assumptions; and (3) trend rates used to project retiree prescription drug costs were increased based on recent poor experience and projected future increases in retiree prescription drug costs. SHBP – Local fiscal year 2016 UAAL for OPEB based on the same actuarial valuation was \$16.8 billion and, for the prior year actuarial valuation, the liability was \$16.4 billion.

During the year, the ABP and the PAF received sufficient funding to meet their benefit obligations.

For the New Jersey State Employees Deferred Compensation Plan and the Supplemental Annuity Collective Trust, members are 100% vested in the present value of their contributions and the funds have sufficient assets to meet future benefit obligations.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

(Unaudited)

June 30, 2016

**Contacting System Financial Management**

This financial report is designed to provide our members, beneficiaries, investors, and other interested parties with a general overview of the Funds' finances and to show the Funds' accountability for the money it receives. This report is available on the Division of Pensions and Benefits website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions). 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**  
**DIVISION OF PENSIONS AND BENEFITS**  
Combining Statement of Fiduciary Net Position  
Fiduciary Funds – Pension Trust and Other Postemployment Benefit Plans  
June 30, 2016

	Defined Benefit Pension Plans								Defined Contribution Pension Plans				Other Postemployment Benefit Plans			Total
	Judicial Retirement System	Prison Officers' Pension Fund	State Police Retirement System	Consolidated Police and Firemen's Pension Fund	Teachers' Pension and Annuity Fund	Police and Firemen's Retirement System	Public Employees' Retirement System	Central Pension Fund	Alternate Benefit Long-term Disability Fund	New Jersey State Employees Deferred Compensation Plan	Defined Contribution Retirement Plan	Supplemental Annuity Collective Trust	State Health Benefit Program Fund State	State Health Benefit Program Fund Local	State Health Benefit Program Fund Education	
Assets:																
Cash and cash equivalents	\$ 223,043	206,780	1,587,746	97,183	2,414,775	1,609,548	2,143,605	16,834	—	14,031	28,189	103,078	817,433	315,923	773,632	10,351,800
Receivables:																
Contributions:																
Members	350,324	—	1,236,348	—	82,176,124	49,897,205	61,755,437	—	—	—	—	394,026	1,213,182	931,947	1,007,322	198,961,915
Employers	149,725	—	158,804	—	33,077,039	992,349,260	1,023,306,306	—	—	26,200	—	—	27,858,211	109,073,332	55,026,909	2,241,025,786
Accrued interest and dividends	390	10	2,128	16	33,129	3,304,248	28,203	3	—	635,110	—	252,171	—	—	—	4,255,408
Other	888,102	49,875	271,237	288,358	2,551,217	3,478,523	8,899,751	1,281	1,738,668	—	—	—	498,879	1,903,484	901,642	21,471,017
Total receivables	1,388,541	49,885	1,668,517	288,374	117,837,509	1,049,029,236	1,093,989,697	1,284	1,738,668	635,110	26,200	646,197	29,570,272	111,908,763	56,935,873	2,465,714,126
Investments, at fair value:																
Cash Management Fund	8,327,661	5,958,633	31,939,826	1,683,801	394,124,066	244,143,777	330,384,293	6,686	136,110	17,510,020	5,139,626	879,755	11,889,276	321,057,191	355,989,124	1,729,169,845
Common Pension Fund D	115,510,746	—	1,075,987,507	—	14,568,762,228	13,864,778,564	16,215,167,356	—	—	—	—	—	—	—	—	45,840,206,401
Common Pension Fund E	58,519,326	—	585,745,952	—	7,797,708,833	7,693,273,548	8,927,262,759	—	—	—	—	—	—	—	—	25,062,510,418
Domestic equities	—	—	—	—	—	—	—	—	—	477,803,009	—	200,221,891	—	—	—	678,024,900
Fixed income mutual funds	—	—	—	—	—	—	—	—	—	394,909,679	—	—	—	—	—	394,909,679
Equity mutual funds	—	—	—	—	—	—	—	—	—	2,687,843,042	—	—	—	—	—	2,687,843,042
Total investments	182,357,733	5,958,633	1,693,673,285	1,683,801	22,760,595,127	21,802,195,889	25,472,814,408	6,686	136,110	3,578,065,750	5,139,626	201,101,646	11,889,276	321,057,191	355,989,124	76,392,664,285
Securities lending collateral	3,272,055	—	30,479,331	—	412,687,066	392,745,430	459,324,528	—	—	—	—	—	—	—	—	1,298,508,410
Members' loans and mortgages	775,888	—	16,096,136	—	271,634,977	1,337,601,102	616,802,895	—	—	—	—	—	—	—	—	2,242,910,998
Total assets	188,017,260	6,215,298	1,743,505,015	2,069,358	23,565,169,454	24,583,181,205	27,645,075,133	24,804	1,874,778	3,578,714,891	5,194,015	201,850,921	42,276,981	433,281,877	413,698,629	82,410,149,619
Liabilities:																
Accounts payable and accrued expenses	—	683	75,978	—	72,431,070	5,450,197	99,421,414	—	—	1,221,100	1,611	292,294	285,919,991	165,908,869	339,722,317	970,445,524
Retirement benefits payable	4,551,435	101,483	17,741,886	172,051	349,959,596	193,136,024	300,889,814	24,804	—	—	—	254,393	—	—	—	866,831,486
Noncontributory group life insurance premiums payable	149,725	—	158,804	—	7,663,781	5,884,168	15,327,645	—	—	—	88,239	—	—	—	—	29,272,362
Administrative expense payable	48,168	1,899	123,633	2,379	5,062,284	1,712,001	8,594,633	—	—	—	—	—	968,391	472,575	1,141,410	18,127,373
Securities lending collateral and rebates payable	3,268,112	—	30,442,602	—	412,189,756	392,272,151	458,771,017	—	—	—	—	—	—	—	—	1,296,943,638
Total liabilities	8,017,440	104,065	48,542,903	174,430	847,306,487	598,454,541	883,004,523	24,804	—	1,221,100	89,850	546,687	286,888,382	166,381,444	340,863,727	3,181,620,383
Net position:																
Restricted for pension and other postemployment benefits	\$ 179,999,820	6,111,233	1,694,962,112	1,894,928	22,717,862,967	23,984,726,664	26,762,070,610	—	1,874,778	3,577,493,791	5,104,165	201,304,234	(244,611,401)	266,900,433	72,834,902	79,228,529,236

See accompanying notes to financial statements.



**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds

Year ended June 30, 2016

	<b>Pension Trust and Other Postemployment Benefit Plans</b>
Additions:	
Contributions:	
Members	\$ 2,728,399,275
Employers	8,371,079,575
Nonemployer	860,429,467
Employer specific	15,215,218
Total contributions	11,975,123,535
Investment (loss) income:	
Net decrease in fair value of investments	(2,244,262,789)
Interest	1,597,614,488
Dividends	14,889,882
	(631,758,419)
Less investment expense	16,906,200
Net investment loss	(648,664,619)
Total additions	11,326,458,916
Deductions:	
Benefits	17,270,398,926
Refunds of contributions	202,432,865
Administrative and miscellaneous expenses	52,553,872
Total deductions	17,525,385,663
Change in net position	(6,198,926,747)
Net position restricted for pension and other postemployment benefits:	
Beginning of year	85,427,455,983
End of year	\$ 79,228,529,236

See accompanying notes to financial statements.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**  
Combining Statement of Changes In Fiduciary Net Position  
Fiduciary Funds – Pension Trust and Other Postemployment Benefit Plans  
Year ended June 30, 2016

	Defined Benefit Pension Plans							Defined Contribution Pension Plans				Other Postemployment Benefit Plans			Total	
	Judicial Retirement System	Prison Officers' Pension Fund	State Police Retirement System	Consolidated Police and Firemen's Pension Fund	Teachers' Pension and Annuity Fund	Police and Firemen's Retirement System	Public Employees' Retirement System	Central Pension Fund	Alternate Benefit Long-term Disability Fund	New Jersey State Employees Deferred Compensation Plan	Defined Contribution Retirement Plan	Supplemental Annuity Collective Trust	State Health Benefit Program Fund State	State Health Benefit Program Fund Local		State Health Benefit Program Fund Education
Additions:																
Contributions:																
Members	\$ 9,271,869	—	22,818,295	—	761,711,695	388,681,408	821,305,787	—	—	180,268,889	—	5,814,213	431,274,290	52,682,811	54,570,018	2,728,399,275
Employers	14,794,774	—	37,435,541	148,000	1,105,810	900,033,567	1,273,425,342	280,500	1,738,668	—	2,750,910	—	1,998,551,825	1,316,195,962	2,824,618,676	8,371,079,575
Non-employers	—	—	—	—	798,963,467	61,466,000	—	—	—	—	—	—	—	—	—	860,429,467
Employer specific	726,284	634,217	54,000	1,196,017	1,807,662	6,848,771	3,926,053	22,214	—	—	—	—	—	—	—	15,215,218
Total contributions	24,792,927	634,217	60,307,836	1,344,017	1,563,588,634	1,357,029,746	2,098,657,182	302,714	1,738,668	180,268,889	2,750,910	5,814,213	2,429,826,115	1,368,878,773	2,879,188,694	11,975,123,535
Investment (loss) income:																
Net (decrease) increase in fair value of investments	(6,342,413)	1,295	(53,947,388)	346	(747,095,626)	(648,865,408)	(799,550,199)	—	34	10,620,196	1,275	772,851	(6,956)	71,005	78,199	(2,244,262,789)
Interest	3,642,336	18,804	34,796,068	13,059	484,845,840	500,010,147	571,561,244	176	3,431	50,156	12,829	2,496	327,133	1,162,131	1,168,638	1,597,614,488
Dividends	—	—	—	—	—	—	—	—	—	10,335,307	—	4,554,575	—	—	—	14,889,882
Less investment expense	(2,700,077)	20,099	(19,151,320)	13,405	(262,249,786)	(148,855,261)	(227,988,955)	176	3,465	21,005,659	14,104	5,329,922	320,177	1,233,136	1,246,837	(631,758,419)
Net investment (loss) income	(2,721,949)	18,067	(19,284,054)	10,856	(267,684,353)	(150,693,159)	(237,215,643)	176	3,465	20,757,799	14,104	5,329,922	320,177	1,233,136	1,246,837	(648,664,619)
Total additions	22,070,978	652,284	41,023,782	1,354,873	1,295,904,281	1,206,336,587	1,861,441,539	302,890	1,742,133	201,026,688	2,765,014	11,144,135	2,430,146,292	1,370,111,909	2,880,435,531	11,326,458,916
Deductions:																
Benefits	54,686,521	1,240,307	213,306,727	1,881,252	4,111,142,744	2,316,135,014	3,493,323,473	296,847	1,500,000	163,247,570	889,089	20,342,949	2,549,202,032	1,395,376,640	2,947,827,761	17,270,398,926
Refunds of contributions	—	—	129,423	—	57,928,018	8,040,939	136,328,442	6,043	—	—	—	—	—	—	—	202,432,865
Administrative and miscellaneous expenses	168,008	5,312	334,630	6,643	13,768,112	4,292,891	23,285,920	—	—	190,880	—	—	3,938,054	1,921,770	4,641,652	52,553,872
Total deductions	54,854,529	1,245,619	213,770,780	1,887,895	4,182,838,874	2,328,468,844	3,652,937,835	302,890	1,500,000	163,438,450	889,089	20,342,949	2,553,140,086	1,397,298,410	2,952,469,413	17,525,385,663
Change in net position	(32,783,551)	(593,335)	(172,746,998)	(533,022)	(2,886,934,593)	(1,122,132,257)	(1,791,496,296)	—	242,133	37,588,238	1,875,925	(9,198,814)	(122,993,794)	(27,186,501)	(72,033,882)	(6,198,926,747)
Net position restricted for pension and other postemployment benefits:																
Beginning of year	212,783,371	6,704,568	1,867,709,110	2,427,950	25,604,797,560	25,106,858,921	28,553,566,906	—	1,632,645	3,539,905,553	3,228,240	210,503,048	(121,617,607)	294,086,934	144,868,784	85,427,455,983
End of year	\$ 179,999,820	6,111,233	1,694,962,112	1,894,928	22,717,862,967	23,984,726,664	26,762,070,610	—	1,874,778	3,577,493,791	5,104,165	201,304,234	(244,611,401)	266,900,433	72,834,902	79,228,529,236

See accompanying notes to financial statements.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

**(1) Description of the Plans**

**(a) Organization**

The State of New Jersey, Division of Pensions and Benefits (the Division) was created and exists pursuant to N.J.S.A. 52:18A to oversee and administer the pension trust and other postemployment benefit plans sponsored by the State of New Jersey (the State). The following is a list of the benefit plans, which have been included in the basic financial statements of the Division, collectively referred to as the Plans:

<b>Plan Name</b>	<b>Type of Plan</b>
Defined benefit pension plans:	
Judicial Retirement System (JRS)	Single-employer
Prison Officers' Pension Fund (POPF)	Single-employer
State Police Retirement System (SPRS)	Single-employer
Consolidated Police and Firemen's Pension Fund (CPFPPF)	Cost-sharing multiple-employer with special funding situation
Teachers' Pension and Annuity Fund (TPAF)	Cost-sharing multiple-employer with special funding situation
Police and Firemen's Retirement System (PFRS)	Cost-sharing multiple-employer with special funding situation
Public Employees' Retirement System (PERS)	Cost-sharing multiple-employer
Central Pension Fund (CPF)	Single-employer
Defined contribution pension plans:	
Alternate Benefit Long-term Disability Fund (ABPLTD)	Single-employer
New Jersey State Employees Deferred Compensation Plan (NJSEDCP)	Single-employer
Defined Contribution Retirement Plan (DCRP)	Multiple-employer
Supplemental Annuity Collective Trust (SACT)	Multiple-employer
Defined benefit other postemployment benefit plans:	
State Health Benefit Program Fund - State (SHBP - State)	Single-employer
State Health Benefit Program Fund - Local (SHBP - Local)	Cost-sharing multiple-employer
State Health Benefit Program Fund - Education (SHBP - Education)	Cost-sharing multiple-employer with special funding situation

The Division oversees the following agency funds:

<b>Agency Fund</b>
Pension Adjustment Fund (PAF)
Alternate Benefit Program (ABP)
Dental Expense Program Fund - State (DEP - State)
Dental Expense Program Fund - Local (DEP - Local)

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

**(b) Defined Benefit Pension Plans**

Each defined benefit pension plan's designated purpose is to provide retirement, death and disability benefits to its members. Below is a summary description of each defined benefit pension plan administered by the Division:

<b>Plan</b>	<b>Established as of</b>	<b>Legislation</b>	<b>Membership</b>
JRS	June 1, 1973	N.J.S.A. 43:6A	All members of the State Judiciary.
POPF*	January 1, 1941	N.J.S.A. 43:7	Various employees in the state penal institutions appointed prior to January 1, 1960.
SPRS	July 1, 1965	N.J.S.A. 53:5A	All uniformed officers and troopers of the Division of State Police.
CPFPF*	January 1, 1952	N.J.S.A. 43:16	County and municipal police and firemen appointed prior to July 1, 1944.
TPAF	January 1, 1955	N.J.S.A. 18A:66	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.
PFRS	July 1, 1944	N.J.S.A. 43:16A	Substantially all full-time county and municipal police or firemen and state firemen or officer employees with police powers appointed after June 30, 1944.
PERS	January 1, 1955	N.J.S.A. 43:15A	Substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund.
CPF	Various	Various	The CPF is a "pay-as-you-go" benefit plan. The CPF's designated purpose is to provide retirement allowances under the following series of noncontributory pension acts: Veterans Act Pensioners (N.J.S.A. 43:4-1 to 4-6); Health Pension Act (N.J.S.A. 43:5-1 to 5-4); Pension to Widows of Governors (N.J.S.A. 43:8-2); Disabled Veterans Pension, Surviving Spouse of Veterans (N.J.S.A. 38:18-1 to 18-2 and N.J.S.A. 38:18A-1) and Special Act (N.J.S.A. 43:5A to 5A-1).

\* Represents a closed plan.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

The authority to amend the provisions of the above plans rests with new legislation passed by the State of New Jersey. Pension reforms enacted pursuant to Chapter 78, P.L. 2011 included provisions creating special Pension Plan Design Committees for JRS, SPRS, TPAF, PFRS, and PERS, once a Target Funded Ratio (TFR) is met. The Pension Plan Design Committees will have the discretionary authority to modify certain plan design features, including member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance; age at which a member may be eligible and the benefits for service or early retirement; and benefits provided for disability retirement. The committees will also have the authority to reactivate the cost of living adjustment (COLA) on pensions. However, modifications can only be made to the extent that the resulting impact does not cause the funded ratio to drop below the TFR in any one year of a 30-year projection period.

*Plan Membership and Contributing Employers*

Membership and contributing employers of the defined benefit pension plans consisted of the following at June 30, 2016:

	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPE</u>	<u>TPAF*</u>	<u>PFRS</u>	<u>PERS</u>	<u>CPF</u>
Inactive plan members or beneficiaries currently receiving benefits	638	88	3,553	89	101,263	45,423	171,422	12
Inactive plan members entitled to but not yet receiving benefits	4	—	—	—	210	51	703	—
Active plan members	<u>409</u>	<u>—</u>	<u>2,746</u>	<u>—</u>	<u>155,882</u>	<u>42,036</u>	<u>261,171</u>	<u>—</u>
Total	<u>1,051</u>	<u>88</u>	<u>6,299</u>	<u>89</u>	<u>257,355</u>	<u>87,510</u>	<u>433,296</u>	<u>12</u>
Contributing employers	1	1	1	45	24	586	1,713	1

\* In addition to the State, who is the sole payer of regular employer contributions to the fund, TPAF's contributing employers include boards of education who elected to participate in the Early Retirement Incentive Program and continue to pay towards their incurred liability.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

*Pension Plans' Boards and Composition*

The table below represents the composition and source of selection for the Plan's boards:

	<b>SPRS</b>	<b>TPAF</b>	<b>PFRS</b>	<b>PERS</b>
Appointments by:				
Governor	2	2	5	2
Treasurer	1	1	1	1
Superintendent of the State Police	2			
Elected by Board or Members		4	5	6
Total	5	7	11	9

POPF, CPFPPF and CPF are managed by the Division. General responsibility for JRS is vested with the State House Commission.

*Contribution Requirements and Benefit Provisions*

Significant Legislation

Chapter 19, P.L. 2009, effective March 17, 2009, provided an option for local employers of PFRS and PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases were suspended for all current and future retirees of all retirement systems.

The following are specific contribution requirements and benefit provisions related to each defined benefit plan:

JRS

The contribution policy is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. Members enrolled on January 1, 1996 or after, contribute on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on the difference between their current salary and the salary of the position on January 18, 1982. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate is being increased from 3% to 12%, phased-in over seven years for members hired or reappointed after June 28, 2011. In October 2011, the member contribution rate for new members increased. The phase-in of the additional

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

incremental member contribution rate takes place in July of each subsequent State fiscal year. The member contribution rate was 9.40% in State fiscal year 2016. The State's contribution is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The vesting and benefit provisions are set by N.J.S.A. 43:6A. JRS provides retirement benefits as well as death and disability benefits. Retirement is mandatory at age 70. Service retirement benefits are available to members who have reached certain ages and various years of service. Benefits of 75% of final salary are available to members at age 70 with 10 or more years of judicial service; members between ages 65-69 with 15 or more years of judicial service or between ages 60-64 with 20 or more years of judicial service. Benefits of 50% of final salary are available to those with both judicial service and non-judicial service for which five or more consecutive years were judicial service. These benefits are available at age 65 or older with 15 years or more of aggregate service or age 60 or older with 20 or more years of aggregate service. Benefits of 2% of final salary for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years are available at age 60 with five consecutive years of judicial service plus 15 years in the aggregate of public service or at age 60 while serving as a judge.

Early retirement benefits of 2% of final salary for each year of service up to 25 years and 1% of final salary for each year over 25 years is available to members who retire before age 60, have 5 or more consecutive years of judicial service, and 25 or more years in aggregate public service. The amount of benefits is actuarially reduced for the number of months remaining until the member reaches age 60.

POPF

There are no active members in POPF. Additionally, based on the recent actuarial valuation, there was no normal cost or accrued liability contribution required by the State for the fiscal year ended June 30, 2016. The vesting and benefit provisions were set by N.J.S.A. 43:7.

SPRS

The contribution policy is set by N.J.S.A. 53:5A and requires contributions by active members and the State of New Jersey. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 7.5% to 9% in October 2011. The State's contribution is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The vesting and benefit provisions are set by N.J.S.A. 53:5A. SPRS provides retirement benefits as well as death and disability benefits. All benefits vest after ten years of service, as defined, and members are always fully vested in their contributions. Mandatory retirement is at age 55. Voluntary retirement is prior to age 55 with 20 years of credited service. Benefit is an annual retirement allowance equal to the greater of (a), (b), or (c), as follows: (a) 50% of final compensation; (b) For members retiring with 25 or more years of service, 65% of final compensation, plus 1% for each year of service in excess of 25 years, to a maximum of 70% of final compensation; or (c) for members as of August 29, 1985 who would not have 20 years of service by age 55, benefit as defined in (a) above. For members

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

as of August 29, 1985, who would have 20 years of service but would not have 25 years of service at age 55, benefit is as defined in (a) above plus 3% for each year of service.

CPFPPF

There are no active members in CPFPPF. Additionally, based on the recent actuarial valuation, the State made a \$148,000 contribution towards the unfunded accrued liability during the fiscal year ended June 30, 2016. The vesting and benefit provisions were set by N.J.S.A. 43:16.

TPAF

The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.06% in State fiscal year 2016. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The State's contribution is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The vesting and benefit provisions are set by N.J.S.A. 18A:66. 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 TPAF. 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.

The following represents the membership tiers for TPAF:

<b>Tier</b>	<b>Definition</b>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55<sup>th</sup> of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60<sup>th</sup> of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 or more years of service credit before age 62, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.



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PFRS

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 8.5% to 10% in October 2011. Employers' contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits, which vest after four years of service.

The following represents the membership tiers for PFRS:

<b>Tier</b>	<b>Definition</b>
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years, but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

PERS

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.06% in State fiscal year 2016. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS 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 PERS.

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The following represents the membership tiers for PERS:

<b>Tier</b>	<b>Definition</b>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55<sup>th</sup> of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60<sup>th</sup> of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 or more years of service credit before age 62, and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

**CPF**

The State of New Jersey makes an annual appropriation payment to CPF to pay current year benefits. The contribution requirements were established by the statutes mentioned in the previous table and are not actuarially determined.

Benefits are payable under various State of New Jersey legislation in an amount equal to one-half of the compensation received by the participant for his/her service.

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(c) *Defined Contribution Pension Plans*

The Division administers four defined contribution plans to certain members as further discussed below:

<b>Plan</b>	<b>Established as of</b>	<b>Legislation</b>	<b>Membership</b>
ABPLTD	1965 through 1968	NJAC 17:7	Substantially all full-time employees of the State of New Jersey after completing twelve months of continuous full-time employment in an Alternate Benefit Plan eligible position.
NJSEDCP	June 19, 1978	Chapter 39, P.L. 1978, amended by Chapter 449, P.L. 1985, effective January 14, 1986, and further amended by Chapter 116, P.L. 1997, effective June 6, 1997	Any state employee who is a member of a state-administered retirement system or an employee of an eligible state agency, authority, commission or instrumentality of state government provided the employee has at least 12 continuous months of employment, and any individual employed through a Governor's appointment.
DCRP	July 1, 2007	Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010	State or local officials, elected or appointed on or after July 1, 2007; employees enrolled in TPAF or PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees enrolled in SPRS or PFRS after May 21, 2010, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in TPAF or PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment, but who earn salary of at least \$5,000 annually; and employees otherwise eligible to enroll in TPAF or PERS after May 21, 2010, who do not work the minimum number of hours per week required for tier 4 or tier 5 enrollment, but who earn salary of at least \$5,000 annually.
SACT	1963	Chapter 123, P.L. 1963, amended by Chapter 90, P.L. 1965	Active members of several state-administered retirement systems to provide specific benefits to supplement the guaranteed benefits that are provided by their basic retirement system.

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*Plan Membership*

At June 30, 2016, membership in the defined contribution pension plans consisted of the following based on the information within the Division's database:

<u>Plan</u>	<u>Members</u>
ABPLTD	169
NJSEDCP	51,354
DCRP	46,557
SACT	3,081

*Contribution Requirements and Benefit Provisions*

ABPLTD

The State of New Jersey makes an annual contribution to the ABPLTD, as required, toward the cost of long-term disability benefits, which extend beyond the calendar year following the year in which the disability benefits commence for those with a benefit commencement date on or after October 1, 1986.

Members, who are totally disabled due to an occupational or non-occupational condition, are eligible to receive a regular monthly benefit equal to 60% of the base salary earned over the twelve-month period preceding the onset of the disability. The long-term disability benefits continue until such time as the member retires or attains the age of 70, whichever comes first.

NJSEDCP

Participants may defer between 1% and 100% of their salary, less any Internal Revenue Code (IRC) Section 414(h) reductions, or \$18,000 annually. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of twice the annual maximum in the three years immediately preceding the retirement age at which no reduction in benefits would be applicable.

There are no employer or nonemployer entities that are required to contribute to the plan.

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Plan members are fully vested for the current valuation of their account from the date of enrollment in the Plan. Benefits are payable upon separation from service with the State of New Jersey.

DCRP

State and local government employers contribute 3% of the employees' base salary. Active members contribute 5.5% of base salary.

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Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and nonforfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and nonforfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

SACT

Participants contribute through payroll deductions and may contribute from 1% to 100% of their base salary, as defined. Contributions are voluntary and may be suspended at the beginning of any quarter. Contributions under the Tax Sheltered Supplemental Annuity Plan are subject to Federal law limitations and qualify for tax-sheltered treatment permitted under Section 403(b) of the IRC. Participants are always fully vested for the accumulated units in their accounts.

Upon retirement, a participant receives a life annuity benefit or may elect to receive a benefit paid as a single cash payment or various forms of monthly annuity payments with a beneficiary provision based on the value of the participant's account in the month of retirement. Upon the death of a participant, the designated beneficiary may elect to receive a lump sum equal to the account value or an annuity under any of the settlement options, which a retiree could elect under the Trust. Upon termination of employment and withdrawal from the basic retirement systems, a participant must also withdraw his/her account under the Trust as a lump-sum settlement.

**(d) Other Postemployment Benefit (OPEB) Plans**

The Division administers the defined benefit OPEB plans as further described below:

<u>Plan</u>	<u>Established as of</u>	<u>Legislation</u>	<u>Membership</u>
SHBP - State SHBP - Local	1961	Title 52, Article 14- 17.25 et seq	Offers medical and prescription drug coverage to qualified State and local government public employees, retirees, and eligible dependents. Local employers must adopt a resolution to participate in the SHBP.
SHBP - Education	2007	Title 52, Article 14- 17.46 et seq	Offers medical and prescription drug coverage to qualified local education public employees, retirees, and eligible dependents. Local education employers must adopt a resolution to participate in the SHBP.

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*Plan Membership and Contributing Employers*

Membership, based on the current actuarial valuation dated July 1, 2015, and contributing employers, based on the Division's database, of the defined benefit OPEB plans consisted of the following at June 30, 2016:

	<u>Active</u>	<u>Retired</u>	<u>Total</u>	<u>Contributing Employers</u>
SHBP - State	107,349	66,383	173,732	1
SHBP - Local	43,094	38,765	81,859	583
SHBP - Education	207,854	139,158	347,012	1

*Contribution Requirements and Benefit Provisions*

Contributions to pay for the health benefit premiums of participating employees in SHBP – State, Local and Education (including the prescription drug programs (PDP)) are collected from the State of New Jersey, participating local employers, active and retired members, and former active and retired members who have elected to participate under the rules of the Consolidated Omnibus Budget Reconciliation Act (COBRA). The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to SHBP – State on a monthly basis. Local and Education employers remit employer contributions on a monthly basis. Active and retired member contributions are generally received on a monthly basis.

The State, employers participating in SHBP – Local and employers participating in SHBP – Education made contributions of \$2.0 billion, \$1.3 billion and \$2.8 billion for State fiscal year 2016, respectively.

Chapter 78, P.L. 2011, effective June 28, 2011, established new employee contribution requirements towards the cost of employer provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions are being phased in over a four-year period for those employed prior to June 28, 2011 with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011, the four-year phase-in does not apply, and contributions based on the full percentage rate of contribution are required. Under Chapter 78, certain future retirees eligible for state-paid health care coverage at retirement are also required to pay a percentage of the cost of their medical coverage determined on the basis of their annual retirement benefit.

SHBP – State provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. Retirees who are not eligible for state-paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. The PDP was established in December 1974, under N.J.S.A. 52:14-17.29 to provide coverage to employees and their eligible dependents for drugs, which

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under federal or State law may be dispensed only upon a prescription written by a physician. State employees are eligible for PDP coverage after 60 days of employment.

SHBP – Local provides medical coverage to qualified local active and retired participants. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage under the provisions of Chapter 330, P.L. 1997. Also, local employees are eligible for the PDP coverage after 60 days of employment.

SHBP – Education provides medical coverage to qualified local education active and retired participants. Members of TPAF who retire from a board of education or county college with 25 years of service or on a disability retirement receive state-paid post-retirement medical coverage. Under the provisions of Chapter 126, P.L. 1992, the program also provides state-paid coverage to members of PERS and ABP who retire from a board of education or county college with 25 years of service or on a disability retirement if the member's employer does not provide this coverage. Certain local participating employers also provide post-retirement medical coverage to their employees. Retirees who are not eligible for state-paid health coverage at retirement can continue in the program if their employer participates in this program or if they are participating in the health benefits plan of their former employer and are enrolled in Medicare Parts A and B by paying the cost of the insurance for themselves and their covered dependents. Also, education employees are eligible for the PDP coverage after 60 days of employment.

*(e) Agency Funds*

The Division oversees PAF, ABP and DEP (State and Local) as agency funds. For PAF, the Division utilizes the annual appropriation payment from the State to pay the cost of living adjustment (COLA) benefits to retirees and beneficiaries of POPF, CPFPF and CPF. For ABP, the Division collects, from the State, the contributions related to the employer portion of the plan and remits it to the pension providers (insurance and mutual fund companies) on behalf of the participating employees at the State and county colleges. For DEP, the Division receives employer contributions from the State and local employers and from active and retired employees to pay premiums to the plan.

**(2) Summary of Significant Accounting Policies**

*(a) Reporting Entity*

The financial statements include all funds, which are administered by the Division over which operating controls are with the individual Plan's governing Boards and/or the State of New Jersey. The financial statements of the Plans are included in the financial statements of the State of New Jersey; however, the accompanying financial statements are intended to present solely the funds listed above, which are administered by the Division and not the State of New Jersey as a whole.

*(b) Measurement Focus and Basis of Accounting*

The accompanying financial statements were prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

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The accrual basis of accounting is used for measuring financial position and changes in net position of the pension trust and other postemployment benefit plans. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

**Fiduciary Funds**

The Division reports the following types of funds:

*Pension trust and other postemployment benefit plans* – Account for monies received for, expenses incurred by and the net position available for plan benefits of the various public employee retirement systems and health benefit programs. The pension trust funds include JRS, POPF, SPRS, CPFPPF, TPAF, PFRS, PERS, CPF, ABPLTD, NJSEDCP, DCRP, and SACT.

*Agency funds* – Agency funds are used to account for the assets that the Division holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

**(c) Receivables**

Receivables consist primarily of member and employer contributions and other amounts that are legally required to be due to the Plans.

**(d) Capital Assets**

Capital assets utilized by the Division include equipment, which is owned and paid for by the State of New Jersey.

**(e) 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 pension plans (JRS, POPF, SPRS, CPFPPF, TPAF, PFRS and PERS) and two defined contribution pension plans (SACT and certain accounts in NJSEDCP). The Division of Investment accounts included in the Division of Pensions and Benefits report are: Common Pension Fund D and Common Pension Fund E (collectively known as the Common Pension Funds), and other investments owned directly by the seven defined benefit pension plans. Common Pension Fund D invests primarily in global equity and fixed income securities. Common Pension Fund E invests primarily in global diversified credit funds and alternative investments, which includes private equity, real estate, real asset, and absolute return strategy.

In addition, the Division of Investment manages the State of New Jersey Cash Management Fund (CMF), which is available on a voluntary basis for investment by State and certain non-State participants. CMF is considered to be an investment trust fund as defined in GASB Statement No. 31, *Certain Investments and External Investment Pools*. Units of ownership in CMF may be purchased or redeemed on any given business day (excluding State holidays) at the unit cost or value of \$1.00. CMF values participant shares on a fair value basis. For additional information about CMF, refer to the



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audited financial statements, which can be obtained at <http://www.state.nj.us/treasury/doinvest/cmf/FinancialStatementsFiscal2016.pdf>.

Prudential Retirement is the third-party administrator for the NJSEDCP. Prudential Retirement provides recordkeeping, administrative services and access to 22 investment options through a combination of their separate account product offerings and retail branded mutual funds. The four state-managed investments options (NJSEDCP Fixed Income Fund, NJSEDCP Equity Fund, NJSEDCP Small Capitalization Equity Fund, and NJSEDCP Cash Management Fund) were closed to new contributions on December 31, 2005. On August 1, 2014, the NJSEDCP Fixed Income Fund and the NJSEDCP Cash Management Fund were closed. On December 15, 2014, the NJSEDCP Equity Fund and the NJSEDCP Small Capitalization Fund were opened to new contributions. The Board of the NJSEDCP is the fiduciary for the investments of the Plan. The Division of Pensions and Benefits maintains its administrative oversight functions for the Plan.

Investment transactions are accounted for on a trade or investment date basis. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date. The net increase or decrease in the fair value of investments includes the net realized and unrealized gains or losses on investments.

**(f) *Members' Loans***

Members of JRS, SPRS, TPAF, PFRS, and PERS who have at least three years of service in these plans 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 as set by the State Treasurer. For 2016, the interest rate was 6.0%. There was an \$8 processing fee per loan. 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.

**(g) *Administrative Expenses***

Administrative expenses are paid by the plans to the State of New Jersey, Department of the Treasury and are included in the accompanying financial statements.

In certain funds (JRS, SPRS, TPAF, PFRS and PERS) 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. These miscellaneous items are not part of the supplementary information included in the Schedule of Administrative Expenses (Schedule 6). Additionally, State Health Benefit Program Funds – State, Local and Education administrative expenses are included in administrative expenses in the accompanying financial statements, but are not included in the supplementary information in Schedule 6.

**(h) *Income Tax Status***

Based on Internal Revenue Service (IRS) determination letters received in January 2012 for JRS, POPF, SPRS, TPAF, and PERS and in June 2012 for CPFPPF and PFRS, the seven pension funds comply with the qualification requirements of the Internal Revenue Code (IRC). The ABP and DCRP

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received a determination letter that they comply with the qualification requirements of the IRC in September 2012 and January 2013, respectively.

NJSEDCP and SACT are eligible plans as described in Section 457 and Section 401(a) of the IRC, respectively.

**(i) Commitments**

Common Pension Fund E is obligated, under certain private equity, real estate, real asset, absolute return strategy, and global diversified credit fund agreements to make additional capital contributions up to contractual levels over the investment period specified for each investment. As of June 30, 2016, Common Pension Fund E had unfunded commitments totaling approximately \$9.9 billion.

**(j) Use of Estimates**

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

**(k) New Accounting Standards Adopted**

In State fiscal year 2016, the Division adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. GASB 72 identifies various approaches to measuring fair value and levels of inputs based on the objectivity of the data used to measure fair value. It provides additional fair value application guidance and requires enhanced disclosures about fair value measurements. As a result of the adoption of GASB 72, the Division determined that the mortgages issued through the Police and Fire Mortgage Program did not meet the definition of an investment, therefore, reclassified those mortgages to members' loans and mortgages. Additionally, GASB 72 required the addition of note 7 to the financial statements.

**(l) Accounting Pronouncements Applicable to the Division**

In June 2016, the GASB issued Statement No 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). GASB 74 provides new requirements for the stand-alone reporting of other post-employment benefit plans or trusts. As compared to current requirements, the requirements in GASB 74 generally would incorporate changes in actuarial provisions, as well as enhanced note disclosures and required supplementary information in the stand-alone OPEB plan financial statements. GASB 74 will be effective for periods beginning after June 15, 2016. The Division is currently evaluating the impact of GASB 74 for its 2017 financial statements.

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**(3) Employers' Net Pension Liability – Defined Benefit Plans**

*Components of Net Pension Liability*

The components of the net pension liability of the participating employers for the defined benefit plans at June 30, 2016 are as follows:

	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPF</u>	<u>TPAF</u>	<u>PFRS</u>	<u>PERS</u>
Total pension liability \$	980,742,106	7,505,870	5,673,706,321	9,892,635	101,746,770,000	49,402,169,913	85,769,888,074
Plan fiduciary net position	<u>179,999,820</u>	<u>6,111,233</u>	<u>1,694,962,112</u>	<u>1,894,928</u>	<u>22,717,862,967</u>	<u>23,984,726,664</u>	<u>26,762,070,610</u>
Net pension liability \$	<u><u>800,742,286</u></u>	<u><u>1,394,637</u></u>	<u><u>3,978,744,209</u></u>	<u><u>7,997,707</u></u>	<u><u>79,028,907,033</u></u>	<u><u>25,417,443,249</u></u>	<u><u>59,007,817,464</u></u>
Plan fiduciary net position as a percentage of the total pension liability	18.35%	81.42%	29.87%	19.15%	22.33%	48.55%	31.20%

The total pension liability was determined by actuarial valuations as of July 1, 2015, which was rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods in the measurement:

	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPF</u>	<u>TPAF</u>	<u>PFRS</u>	<u>PERS</u>
Inflation rate	3.08%	3.08%	3.08%	3.08%	2.50%	3.08%	3.08%
Salary increases:							
Initial fiscal year applied							
through	2025	N/A	2025	N/A	N/A*	2026	2026
Rate	2.00%	N/A	2.95%	N/A	N/A*	2.10 - 8.98% based on age	1.65 to 4.15% based on age
Thereafter	3.00%	N/A	3.95%	N/A	N/A*	3.10 - 9.98% based on age	2.65 - 5.15% based on age
Investment rate of return	7.65%	2.85%	7.65%	2.85%	7.65%	7.65%	7.65%
Period of actuarial experience study upon which actuarial assumptions were based	July 1, 2011 - June 30, 2014	N/A	July 1, 2011 - June 30, 2014	N/A	July 1, 2012 - June 30, 2015	July 1, 2010 - June 30, 2013	July 1, 2011 - June 30, 2014

N/A - This is a closed plan, therefore there are no active employees.

N/A\* - Salary increases are vary based on experience and the valuation year.

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The following table represents the mortality table and improvement assumptions used:

<u>Plan</u>	<u>Pre-retirement mortality</u>	<u>Post-retirement mortality</u>	<u>Disability</u>
JRS	RP-2000 Combined Healthy Male and RP-2000 Combined Healthy Female Mortality Tables (unadjusted for males and set forward 3 years for females) projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB for the base tables. The base tables are projected beyond the base year using the plan actuary's modified MP-2014 projection scale.	RP-2000 Combined Healthy Mortality Tables (unadjusted for males and set forward 3 years for females) for service retirement and beneficiaries of former members projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB for the base tables. The base tables are projected beyond the base year using the plan actuary's modified MP-2014 projection scale.	RP-2000 Disability Mortality Tables (set forward 2 years for males and females) are used to value disabled retirees.
POPF	Not applicable as there are no active members.	RP-2000 Combined Healthy Mortality Tables projected on a generational basis from the base year of 2000 to 2014 using Projection Scale BB as the base tables and the tables will be further projected beyond the valuation date using the plan actuary's modified 2014 projection scale.	RP-2000 disabled retiree mortality table is used for the period after disability retirement for disability retirements.
SPRS	RP-2000 Combined Healthy Male (set back 3 years) and RP-2000 Combined Healthy Female Mortality Tables projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB as the base table. The base tables are further projected using the plan actuary's modified MP-2014 projection scale.	For healthy inactive members and beneficiaries of deceased members the RP-2000 Combined Healthy Male (set back 3 years) and RP-2000 Combined Healthy Female Mortality tables projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB. These base tables will be further projected beyond the valuation date using the plan actuary's modified MP-2014 projection scale.	RP-2000 Combined Healthy Male (set forward 5 years) and RP-2000 Combined Healthy Female Mortality (set forward 5 years) tables.
CPFPF	Not applicable as there are no active members.	RP-2000 Combined Healthy Mortality Tables projected on a generational basis from the base year of 2000 to 2014 using Projection Scale BB as the base tables.	Special mortality tables are used for the period after disability retirement with no provisions made for mortality improvement after the valuation date for disability retirements.

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<u>Plan</u>	<u>Pre-retirement mortality</u>	<u>Post-retirement mortality</u>	<u>Disability</u>
TPAF	Based on experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.	Based on experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.	Based on experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.
PFRS	RP2000 Employee Pre-Retirement mortality tables projected thirteen-years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales.	RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and two years using the plan actuary's modified 2014 Projection Scales is the base table for male service retirements and will be further projected on a generational basis using the plan actuary's modified 2014 Projection Scales. RP-2000 Combined Healthy Mortality Tables projected thirteen-years using Projection Scale BB and then two years projected using the plan actuary's modified 2014 Projection Scales is the base table for female service retirements and beneficiaries and will be further projected on a generational basis using the plan actuary's modified 2014 projection scales.	Special mortality tables are used for the period after disability retirement.
PERS	RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State, mortality tables are set back 4 years for males and 4 years for females. For Employees of Local employers, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale.	RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirement and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirement and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale.	RP-2000 Disabled Mortality Tables (set back 3 years for males and set forward 1 year for females) are used to value disabled retirees.

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*Long-Term Expected Rate of Return*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPPF</u>	<u>TPAF</u>	<u>PFRS</u>	<u>PERS</u>
Cash	0.87%	0.87%	0.87%	0.87%	0.39%	0.87%	0.87%
U.S. Treasuries	1.74%	—	1.74%	—	—	1.74%	1.74%
U.S. government bonds	—	—	—	—	1.28%	—	—
U.S. credit bonds	—	—	—	—	2.76%	—	—
Investment grade credit	1.79%	—	1.79%	—	—	1.79%	1.79%
Mortgages	1.67%	—	1.67%	—	2.38%	1.67%	1.67%
High yield bonds	4.56%	—	4.56%	—	4.70%	4.56%	4.56%
Inflation-indexed bonds	3.44%	—	3.44%	—	1.41%	3.44%	3.44%
Broad U.S. equities	8.53%	—	8.53%	—	5.14%	8.53%	8.53%
Developed foreign equities	6.83%	—	6.83%	—	5.91%	6.83%	6.83%
Emerging market equities	9.95%	—	9.95%	—	8.16%	9.95%	9.95%
Private equity	12.40%	—	12.40%	—	8.97%	12.40%	12.40%
Hedge funds/Absolute return	4.68%	—	4.68%	—	—	4.68%	4.68%
MultiStrategy	—	—	—	—	3.70%	—	—
Equity hedge	—	—	—	—	4.72%	—	—
Distressed	—	—	—	—	3.49%	—	—
Real estate (property)	6.91%	—	6.91%	—	3.64%	6.91%	6.91%
Commodities	5.45%	—	5.45%	—	2.87%	5.45%	5.45%
Timber	—	—	—	—	3.86%	—	—
Farmland	—	—	—	—	4.39%	—	—
Global Debt excluding U.S.	-0.25%	—	-0.25%	—	—	-0.25%	-0.25%
Real estate investment trusts	5.63%	—	5.63%	—	—	5.63%	5.63%

*Discount Rate*

The discount rate used to measure the total pension liabilities of the plans were as follows:

<u>Plan</u>	<u>Discount Rate</u>
JRS	3.11%
POPF	2.85%
SPRS	3.55%
CPFPPF	2.85%
TPAF	3.22%
PFRS	5.55%
PERS	3.98%

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The following table represents the crossover period, if applicable, for each defined benefit plan:

	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPP</u>	<u>TPAF</u>	<u>PFRS</u>	<u>PERS</u>
Period of projected benefit payments for which the following rates were applied:							
Long-term expected rate of return	Through June 30, 2022	Not applicable	Through June 30, 2033	Not applicable	Through June 30, 2029	Through June 30, 2050	Through June 30, 2034
Municipal Bond rate*	From July 1, 2022 and thereafter	All periods	From July 1, 2033 and thereafter	All periods	From July 1, 2029 and thereafter	From July 1, 2050 and thereafter	From July 1, 2034 and thereafter

\* The municipal bond return rate used is 2.85%. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

*Sensitivity of Net Pension Liability*

The following presents the net pension liability of each plan calculated using the discount rates as disclosed above as well as what each plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

<u>Plan (rates used)</u>	<u>At 1% decrease</u>	<u>At current discount rate</u>	<u>At 1% increase</u>
JRS (2.11%, 3.11%, 4.11%)	\$ 912,241,750	800,742,286	706,550,300
POPF (1.85%, 2.85%, 3.85%)	1,810,906	1,394,637	1,020,534
SPRS (2.55%, 3.55%, 4.55%)	4,948,165,769	3,978,744,209	3,213,322,784
CPFPP (1.85%, 2.85%, 3.85%)	8,455,736	7,997,707	7,582,792
TPAF (2.22%, 3.22%, 4.22%)	94,378,176,033	79,028,907,033	66,494,248,033
PFRS (4.55%, 5.55%, 6.55%)	32,312,095,296	25,417,443,249	19,797,527,320
PERS (2.98%, 3.98%, 4.98%)	70,715,189,252	59,007,817,464	49,352,744,647

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**(4) Investments**

The Plans' investments (including investments held directly by the Common Pension Funds) as of June 30, 2016 are as follows:

Common Pension Fund D:	
Cash Management Fund	\$ 2,697,533,103
Domestic equities	20,154,433,664
International equities	12,174,418,177
Domestic fixed income	7,793,117,841
International fixed income	2,751,731,774
Put options	668,750
Other <sup>(1)</sup>	268,303,092
	<u>45,840,206,401</u>
Common Pension Fund E:	
Cash Management Fund	577,707,684
Domestic equities	4,878,870
Absolute return strategy funds	8,551,381,299
Private equity funds	7,382,974,347
Real estate funds	3,368,163,795
Global diversified credit funds	2,589,107,238
Real assets	1,728,009,536
Opportunistic private equity investments	335,359,923
Other <sup>(1)</sup>	524,927,726
	<u>25,062,510,418</u>
All Other Investments:	
Cash Management Fund	1,770,583,168
Domestic equities	678,024,900
Fixed income mutual funds	394,909,679
Equity mutual funds	2,687,843,042
	<u>5,531,360,789</u>
Total	\$ 76,434,077,608

<sup>(1)</sup> Includes assets (other than investments) and liabilities included in the net position of the Common Pension Funds.

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 for the Common Pension Funds managed by the Division of Investment, which include global equity investments, non-convertible preferred stocks, covered call options, put options, futures contracts, obligations of the U.S. Treasury, government agencies, corporations, international governments and



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agencies, global diversified credit investments, swap transactions, state and municipal general obligations, public authority revenue obligations, collateralized notes and mortgages, commercial paper, certificates of deposit, repurchase agreements, money market funds, private equity funds, real estate funds, other real assets, absolute return strategy funds, and the CMF.

The asset allocation policy as of June 30, 2016 for JRS, POPF, CPFPPF, SPRS, TPAF, PFRS and PERS, collectively known as the Pension Funds, is as follows:

<b>Asset Class</b>	<b>Target</b>
Absolute return/risk mitigation	5.00%
Total risk mitigation	5.00%
Cash equivalents	5.00%
U.S. Treasury TIPS	1.50%
U.S. Treasuries	1.50%
Total liquidity	8.00%
Investment grade credit	8.00%
Public high yield	2.00%
Global diversified credit	5.00%
Credit oriented hedge funds	3.75%
Debt related private equity	1.00%
Debt related real estate	0.80%
Police and Firemen's Mortgage Program <sup>(1)</sup>	1.20%
Total income	21.75%
Commodities	0.50%
Private real asset	2.00%
Equity related real estate	5.25%
Total real return	7.75%
U.S. equity	26.00%
Non-U.S. developed markets equity	13.25%
Emerging markets equity	6.50%
Equity oriented hedge funds	3.75%
Buyouts/venture capital	8.00%
Total global growth	57.50%
Total	100.00%

<sup>(1)</sup> For financial reporting purposes, these mortgages are classified as a members' loans and mortgages in the Statement of Net Position under GASB 72.

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The asset allocation policy is reviewed on at least an annual fiscal year basis.

***Rate of Return***

The annual money-weighted rate of return for the certain Pension Funds was (1.15%) for the fiscal year ended June 30, 2016. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amounts of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the end of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

***Deposit and Investment Risk Disclosure***

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

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

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 various funds and limit the amount that can be invested in any one issuer or issue.

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The credit ratings and limits for the Pension Funds as of June 30, 2016 are as follows:

Category	Minimum rating <sup>(1)</sup>			Limitation of issuer's outstanding debt/stock	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Certificates of deposit						Split rating allowable. Cannot exceed 10% of issuer's primary capital. Not more than 5% of pension fund assets can be invested in any one issuer and affiliated entities.
Domestic	A3/P-1	A-/A-1	A-/F-1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F-1	—	—	
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in one issue. Not more than 5% of pension fund assets can be invested in any one issuer and affiliated entities.
Commercial paper	P-1	A-1	F-1	—	—	Split rating allowable. Not more than 5% of pension fund assets can be invested in any one issuer and affiliated entities.
Global debt obligations	Baa3	BBB-	BBB-	10%	—	Not more than 5% of pension fund assets can be invested in any one issuer and affiliated entities.
Global diversified credit investments:						Not more than 7% of pension fund assets can be invested in this category. Not more than 5% of pension fund assets can be invested in any one issuer and affiliated entities.
Direct bank loans	Baa3	BBB-	BBB-	10%	—	
Funds	Baa3	BBB-	BBB-	—	—	
International government and agency obligations	Baa3	BBB-	BBB-	25%	25%	Not more than 5% of the pension fund assets can be invested in this category.

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Category	Minimum rating <sup>(1)</sup>			Limitation of issuer's outstanding debt/stock	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Money market funds	—	—	—	—	—	Not more than 5% of pension fund assets can be invested in money market funds; limited to 5% of shares or units outstanding.
Mortgage backed						
Pass-through securities	A3	A-	A-	—	—	Not more than 10% of pension fund assets can be invested in mortgage backed securities.
Senior debt securities	—	—	—	—	25%	
Non-convertible preferred stocks	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of pension fund assets can be invested in any one issuer and affiliated entities.
Repurchase agreements						
Bank or trust company	—	—	—	—	—	—
Broker	P-1	A-1	F-1	—	—	—
State, municipal and public Authority obligations	A3	A-	A-	10%	10%	Not more than 2% of pension fund assets can be invested in debt of any one obligor.
Swap transactions	Baa2	BBB	BBB	—	—	Notional value of net exposure to any one counterparty shall not exceed 1% of pension fund assets. Notional value of all swap transactions shall not exceed 5% of pension fund assets, but may be increased to 10% for a fixed period of time.

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

Up to 8% of the fair value of the combined assets of the Pension Funds may be invested in global debt obligations, collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stock, and mortgage-backed pass-through securities that do not meet the minimum credit rating requirements set forth above.

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The total amount of a particular class of stock directly purchased of any one entity by the Common Pension Funds cannot exceed 10% of that class of stock outstanding. The total amount of shares or interests directly purchased or acquired of any one exchange traded fund or global, regional or country fund by the Common Pension Funds shall not exceed 10% of the total shares outstanding or interests of such fund.

The NJSEDCP Equity Fund and the NJSEDCP Small Capitalization Equity Fund are invested in equity securities that are denominated in U.S. dollars that trade on a securities exchange in the United States or the over-the-counter market. The NJSEDCP Equity Fund and the NJSEDCP Small Capitalization Equity Fund may hold up to 25% of their assets either in short-term fixed income securities, as permitted by the Council regulations, or in CMF. Not more than 10% of the fair value of the NJSEDCP Equity Fund or the NJSEDCP Small Capitalization Equity Fund can be invested in the equity of any one issuer and affiliated entities. The total amount of a particular class of stock directly purchased or acquired of any one entity cannot exceed 5% of that class of stock outstanding. The total amount of shares directly purchased or acquired of any one exchange traded fund shall not exceed 5% of the total shares outstanding of such fund.

The funds managed by Prudential Retirement investments for the NJSEDCP consist of a number of individual investment managers, which individually have investment guidelines that they comply with and follow. For Prudential Retirement, the NJSEDCP is a participant directed program offering a range of diversified investment alternatives. The options include bond investments are diversified by sector and number of securities held, mitigating undue concentration of both credit and foreign currency risks as well as interest rate risk.

SACT can only invest in equity securities denominated in U.S. dollars that are traded on a securities exchange in the United States or over-the-counter market. For SACT, not more than 10% of the fair value of the fund can be invested in the equity of any one issuer and affiliated entities. The total amount of shares directly purchased or acquired of any one exchange traded fund shall not exceed 5% of the total shares outstanding of such fund. The total amount of a particular class of stock directly purchased or acquired of any one entity shall not exceed 5% of that class of stock outstanding.

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The following tables disclose aggregate fair value, by major credit quality rating category as of June 30, 2016 for the fixed income securities held directly by the Common Pension Funds. The first table includes fixed income securities rated by Moody's. The second table discloses Standard & Poor's ratings for fixed income securities not rated by Moody's (in thousands).

	Moody's rating									Totals
	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	C	
Corporate obligations	\$ 353,574	349,030	713,305	1,260,037	518,111	669,135	356,648	4,420	21	4,224,281
Foreign government obligations	410,676	1,707,446	56,170	—	—	—	—	—	—	2,174,292
United States Treasury TIPS	1,480,562	—	—	—	—	—	—	—	—	1,480,562
United States Treasury bonds	725,424	—	—	—	—	—	—	—	—	725,424
Federal agency obligations	463,814	—	121,325	—	—	—	—	—	—	585,139
International corporate obligations	16,121	100,335	125,423	65,142	100,363	68,764	27,641	2,058	—	505,847
Mortgages (FHLMC/FNMA/GNMA)	24,680	—	—	—	—	—	—	—	—	24,680
SBA pass through certificates	12,424	—	—	—	—	—	—	—	—	12,424
Bank loans	—	—	—	857	1,848	4,231	3,305	—	130	10,371
Asset backed securities	4,134	—	—	—	—	—	—	—	—	4,134
Other	14,543	197,477	86,391	—	—	—	—	—	—	298,411
	<u>\$ 3,505,952</u>	<u>2,354,288</u>	<u>1,102,614</u>	<u>1,326,036</u>	<u>620,322</u>	<u>742,130</u>	<u>387,594</u>	<u>6,478</u>	<u>151</u>	<u>10,045,565</u>

	Standard and Poor's rating								Totals
	AAA	AA	A	BBB	BB	B	CCC	D	
Corporate obligations	\$ —	—	—	231,491	11,168	12,437	1,701	815	257,612
Foreign government obligations	—	—	40,459	—	—	—	—	—	40,459
International corporate obligations	—	—	—	—	15,328	8,622	1,271	320	25,541
Municipal obligations	—	8,043	18,186	—	1,049	133,434	11,861	—	172,573
	<u>\$ —</u>	<u>8,043</u>	<u>58,645</u>	<u>231,491</u>	<u>27,545</u>	<u>154,493</u>	<u>14,833</u>	<u>1,135</u>	<u>496,185</u>

The tables do not include certain domestic and international corporate obligations and certain fixed income mutual funds, which invest in an underlying portfolio of fixed income securities, totaling \$398,010,022, and do not have a Moody's or Standard & Poor's rating. The above tables also do not include investment in the Cash Management Fund totaling \$5,045,823,955, which is not rated.

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 are limited to a term of one year or less. Repurchase agreements must mature within 30 days. Council regulations permit the Common Pension Funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio.

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The following table summarizes the maturities (or, in the case of Remics and mortgage-backed securities, the expected average life) of the Common Pension Funds' fixed income portfolio as of June 30, 2016 (in thousands).

<b>Fixed income investment type</b>	<b>Maturities in years</b>				<b>Total fair value</b>
	<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More than 10</b>	
Corporate obligations	\$ 174,165	1,494,698	1,888,756	926,519	4,484,138
Foreign government obligations	124,122	806,628	1,060,797	223,204	2,214,751
United States Treasury TIPS	—	554,850	849,757	75,955	1,480,562
United States Treasury bonds	50,003	206,070	469,351	—	725,424
Federal agency obligations	10,311	276,044	298,784	—	585,139
International corporate obligations	37,647	283,905	160,381	49,459	531,392
Mortgages (FHLMC/FNMA/GNMA)	—	—	3,147	21,533	24,680
SBA pass through certificates	171	12,253	—	—	12,424
Bank loans	858	4,626	5,738	—	11,222
Asset backed securities	—	2,065	—	2,069	4,134
Municipal obligations	—	26,173	12,285	286,182	324,640
	<u>\$ 397,277</u>	<u>3,667,312</u>	<u>4,748,996</u>	<u>1,584,921</u>	<u>10,398,506</u>

The fixed income exchange traded funds held by the Common Pension Funds and the fixed income mutual funds held by NJSEDCP as of June 30, 2016 were \$146,343,995 and \$394,909,679, respectively. These funds have a weighted average duration of 4.12 and 5.37 years, respectively.

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The Common Pension Funds invest in global markets. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Common Pension Funds had the following foreign currency exposure as of June 30, 2016 (expressed in U.S. dollars):

<u>Currency</u>	<u>Equities</u>	<u>Fixed income</u>	<u>Alternative investments</u>	<u>Total fair value</u>
Australian dollar	\$ 546,303,934	—	—	546,303,934
Brazilian real	227,180,838	—	—	227,180,838
Canadian dollar	720,795,945	80,538,269	—	801,334,214
Chilean peso	16,103,184	—	—	16,103,184
Colombian peso	—	1,149,428	—	1,149,428
Czech koruna	26,503,605	—	—	26,503,605
Danish krone	158,035,915	—	—	158,035,915
Egyptian pound	277	—	—	277
Euro	2,092,234,927	—	596,965,223	2,689,200,150
Hong Kong dollar	734,338,183	—	—	734,338,183
Hungarian forint	28,225,188	—	—	28,225,188
Indonesian rupiah	114,823,882	—	—	114,823,882
Japanese yen	1,783,500,154	—	—	1,783,500,154
Malaysian ringgit	31,795,988	—	—	31,795,988
Mexican peso	108,913,863	—	—	108,913,863
Moroccan dirham	1,438,729	—	—	1,438,729
New Israeli sheqel	4,692,313	—	—	4,692,313
New Taiwan dollar	20,256,942	—	—	20,256,942
New Zealand dollar	198,670	—	—	198,670
Norwegian krone	58,435,767	—	—	58,435,767
Pakistan rupee	27,184,693	—	—	27,184,693
Philippine peso	68,402,405	—	—	68,402,405
Polish zloty	47,114,109	—	—	47,114,109
Pound sterling (U.K)	1,435,852,288	—	230,824,687	1,666,676,975
Qatari rial	5,277,360	—	—	5,277,360
Singapore dollar	88,554,023	—	—	88,554,023
South African rand	202,477,537	—	—	202,477,537
South Korean won	434,741,594	—	—	434,741,594
Swedish krona	215,620,886	—	—	215,620,886
Swiss franc	743,690,690	—	—	743,690,690
Thailand baht	72,560,967	—	—	72,560,967
Turkish lira	85,091,102	—	—	85,091,102
Uae dirham	11,938,409	—	—	11,938,409
	<u>\$ 10,112,284,367</u>	<u>81,687,697</u>	<u>827,789,910</u>	<u>11,021,761,974</u>



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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. Council regulations provide that not more than 38% of the fair value of the pension funds can be invested in alternative investments, with limits on the individual investment categories of real estate (9%), real assets (7%), private equity (12%) and absolute return strategy (15%).

Not more than 5% of the fair value invested through direct investments, separate accounts, fund-of-funds, commingled funds, co-investments and joint ventures in global diversified credit, private equity, real asset and absolute return strategy investments, plus outstanding commitments, may be committed to any one partnership or investment. These investments cannot comprise more than 20% of any one investment managers' total assets.

As of June 30, 2016, the net position of Common Pension Fund E includes receivables of \$478 million related to the secondary sale of real estate funds and redemption of hedge funds.

**(5) Securities Lending Collateral**

The State Investment Council policies permit the Common Pension Funds 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 publicly traded securities held in Common Pension Funds, 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 fair 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. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

For loans of U.S. government securities or sovereign debt issued by non-U.S. governments, in the event that the fair value of the collateral falls below 100% of the fair value of the outstanding loaned securities to an individual borrower, or the fair value of the collateral of all loans of such securities falls below the collateral requirement, 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 fair value of such additional collateral together with collateral previously delivered meets the collateral requirements.

For loans of all other types of securities, in the event that the fair 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 fair 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. As of June 30, 2016, the Common Pension Funds had no aggregate credit risk exposure to borrowers because the collateral amount held by the Common Pension Funds exceeded the fair value of the securities on loan.

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The contracts with the Common Pension Funds' securities lending agent require them to indemnify the Common Pension Funds if the brokers or other borrowers fail to return the securities and provide that collateral securities may be sold in the event of a borrower default. The Common Pension Funds are also indemnified for any loss of principal or interest on collateral invested in repurchase agreements. The Common Pension Funds cannot participate in any dividend reinvestment program or vote with respect to any securities that are on loan on the applicable record date. The securities loans can be terminated by notification by either the borrower or the Common Pension Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment of the cash collateral.

The securities lending collateral is subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, and interest rate risk. Securities lending collateral is invested in repurchase agreements, the maturities of which cannot exceed 30 days. 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 consistent with internal policies for funds managed by the Division of Investment.

For securities exposed to credit risk in the collateral portfolio, the following table discloses aggregate fair value, by major credit quality rating category as of June 30, 2016 (in thousands).

	<b>Rating</b>		
	<b>Aaa/AAA</b>	<b>Not rated</b>	<b>Totals</b>
Repurchase agreements	\$ 821,000	—	821,000
State Street institutional liquid reserves fund	—	401,016	401,016
Cash overdraft	—	74,902	74,902
	<u>\$ 821,000</u>	<u>475,918</u>	<u>1,296,918</u>

Custodial credit risk for investments is the risk that in the failure of the counterparty to the transaction, the pension funds will not recover the value of the investments that are in the possession of an outside party. The repurchase agreement's underlying securities are held in the Pension Funds' name.

As of June 30, 2016, the Pension Funds had outstanding loaned investment securities with an aggregate fair value of \$1,272,910,574 and did not hold any noncash collateral. There were no borrowers or lending agent default losses, and no recoveries or prior period losses during the year.

**(6) Derivatives**

The pension funds (JRS, SPRS, TPAF, PFRS, and PERS) invest in derivative securities through the Common Pension Funds. A derivative security is an investment whose value is derived from other financial instruments such as commodity prices, bonds and stock prices, or a market index. The Common Pension Funds' derivative securities are considered investment derivative instruments. The fair value of all derivative securities is reported in the statement of fiduciary net position, and the change in fair value is recorded in the statement of changes in fiduciary net position as net increase in fair value of investments.

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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 includes, but is not limited to, the possibility that a change in interest rate risk, foreign currency risk or the value of the underlying securities will cause the value of a financial instrument to decrease or become more costly to settle. The market or the value of underlying security, or securities, risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing limits as to the types, amounts and degree of risk that the Common Pension Funds may undertake as set forth in the Council Regulations.

The Common Pension Funds may use financial futures to replicate an underlying security or indices they wish to hold in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, the Common Pension Funds may use future contracts to improve the yield or adjust the duration of the fixed income portfolio or may sell futures contracts to hedge the portfolio. A financial futures contract is an agreement between a buyer and a seller that is based on a referenced item, such as financial indices, or interest rates or a financial instrument, such as equity or fixed income securities, physical commodities or currencies. Futures contracts may call for physical delivery of specified quantity of the underlying asset of a specified price (futures or strike price) and date, or be settled in cash. Future contracts must be traded on a securities exchange or over the counter market. The net change in the future contracts value is settled daily in cash with the exchanges. The cash to fulfill these obligations is held in a margin account. As the fair value of the futures contract varies from the original contract price, a gain or loss is paid to or received from the clearinghouse and recognized in the statement of changes in fiduciary net position. The Common Pension Funds had no investments in futures at June 30, 2016.

Foreign currency forward contracts are used as a means to hedge against currency risks in the Common Pension Fund. Foreign currency forward 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. Foreign currency forward contracts are marked to market on a daily basis with the change in fair value included in investment income in the statement of changes in fiduciary net position.

The Common Pension 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 Pension Funds enter into covered calls when it writes (or sells) call options on underlying stocks held by the Common Pension Funds or stock indices. The Common Pension Funds enter into covered put options when it purchases put options on underlying stocks held by the Common Pension Funds or stock indices. The Common Pension Fund enters into put spreads when it purchases put options while simultaneously writing put options on the same underlying securities or indices at a lower strike price. 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 may bear the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option.

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As of June 30, 2016, Common Pension Fund's derivative investments included foreign currency forward contracts and equity options:

	<b>Notional value (local currency)</b>	<b>Receivable</b>	<b>Payable</b>	<b>Change in fair value</b>
Foreign currency forward contracts:				
Sell:				
Euro	425,000,000	\$ 476,107,500	474,399,459	1,708,041
Japanese yen	1,500,000,000	132,128,904	146,349,617	(14,220,713)
Pound sterling	50,000,000	<u>68,650,000</u>	<u>66,884,935</u>	<u>1,765,065</u>
Total Forward contracts		\$ <u>676,886,404</u>	<u>687,634,011</u>	<u>(10,747,607)</u>
			<b>Change in fair value</b>	
	<b>Notional value</b>	<b>Fair value</b>		
Options:				
Purchased Options:				
Puts	\$ 104,943,000	668,750	(1,391,250)	
Written Options:				
Put	104,943,000	(135,000)	810,000	
Call	<u>290,357,010</u>	<u>(2,871,381)</u>	<u>(286,311)</u>	
Total Options	\$ <u>500,243,010</u>	<u>(2,337,631)</u>	<u>(867,561)</u>	

Certain of the 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 Pension Funds may have additional exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds.

**(7) Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

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Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and inputs into the determination of fair value require significant management judgment or estimation, including assumptions about risk.

Investments are reported at fair value as follows:

- Domestic and international equity securities and exchange traded funds are valued using closing sales prices reported on recognized securities exchanges on which the securities are principally traded; these securities are included as Level 1 in the chart below. For listed securities having no sales reported and for unlisted securities, such securities will be valued based upon the last reported bid price; these securities are included as Level 2 in the chart below.
- Fixed income and equity mutual funds are valued using the published daily closing prices reported by Prudential and are included as Level 1 in the chart below.
- Foreign and domestic government, agency and corporate obligations, municipal bonds, mortgages, bank loans and asset-backed securities are valued using an evaluated price, which is based on a compilation of primarily observable market information or broker quotes in a non-active market. These are included as Level 2 in the chart below.
- Foreign exchange contracts are valued using industry recognized market-based models to calculate the value that a holder or counterparty would receive within the bid-ask spread, in an orderly transaction under current market conditions. These securities are included as Level 2 in the chart below.
- Options are valued using closing sales prices reported on recognized securities exchanges on which the securities are principally traded. These securities are included as Level 1 in the chart below.
- Distributions from private equity vehicles are received as the underlying investments are liquidated. The Plan's ownership interest in partners' capital can never be redeemed, but could be sold subject to approval by the fund's management. As of June 30, 2016, a buyer (or buyers) for these investments have not yet been identified. The partnership interest may be sold at an amount different from the net asset value (NAV) per share (or its equivalent) of the Plan's ownership interest in partners' capital.
- The valuation methods for investments measured at the NAV per share (or its equivalent) is presented in the table below.

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The following table summarizes the fair value hierarchy of the investment portfolio as of June 30, 2016 (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Investments by fair value</b>			
Equity securities			
Domestic equities	\$ 20,837,337	20,837,337	—
International equities	12,174,418	12,172,573	1,845
Equity mutual funds	<u>2,687,843</u>	<u>2,687,843</u>	<u>—</u>
Total equity securities	35,699,598	35,697,753	1,845
Debt securities			
Corporate obligations	4,484,138	—	4,484,138
Foreign government obligations	2,214,751	—	2,214,751
United States Treasury Tips	1,480,562	—	1,480,562
United States Treasury bonds	725,424	—	725,424
Federal agency obligations	585,139	—	585,139
International corporate obligations	531,392	—	531,392
Municipals obligations	324,640	—	324,640
Exchanged Traded Funds	541,254	541,254	—
Mortgages (FHLMC/FNMA/GNMA)	24,680	—	24,680
SBA pass through certificates	12,424	—	12,424
Bank loans	11,222	—	11,222
Asset backed securities	<u>4,134</u>	<u>—</u>	<u>4,134</u>
Total debt securities	<u>10,939,760</u>	<u>541,254</u>	<u>10,398,506</u>
Total investments by fair value level	46,639,358	<u>36,239,007</u>	<u>10,400,351</u>
<b>Investments measured at the net asset value (NAV)</b>			
Buyout funds	6,105,418		
Opportunistic hedge funds	3,802,287		
Real estate funds - Equity	2,894,980		
Credit oriented hedge funds	2,591,759		
Global diversified credit funds	2,589,107		
Equity oriented hedge funds	1,791,385		
Real asset funds	1,728,010		
Debt related funds	708,447		
Venture capital funds	476,596		
Real estate funds - Debt	473,184		
Multi-strategy hedge funds	365,950		
Opportunistic private equity funds	335,360		
Secondary private equity funds	<u>92,513</u>		
Total investments measured at NAV	23,954,996		
<b>Local Government Investment Pool</b>			
Cash Management Fund	<u>5,045,824</u>		
Total investments measured at fair value	\$ <u>75,640,178</u>		
<b>Investment derivative instruments</b>			
Put options (assets)	\$ 669	669	—
Foreign currency forward contracts (assets)	687,634	—	687,634
Foreign currency forward contracts (liabilities)	(676,886)	—	(676,886)
Options written (liabilities)	<u>(3,006)</u>	<u>(3,006)</u>	<u>—</u>
Total investment derivative instruments	\$ <u>8,411</u>	<u>(2,337)</u>	<u>10,748</u>

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The following table represents the unfunded commitments, redemptions frequency and redemption notice period for investments measured at NAV as of June 30, 2016 (in thousands).

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently Eligible)</u>	<u>Redemption Notice Period</u>
Buyout private equity funds <sup>(13)</sup>	\$ 6,105,418	2,744,139	None	N/A
Opportunistic hedge funds <sup>(3)</sup>	3,802,287	58,741	Monthly, quarterly	2-90 days
Real estate funds - Equity <sup>(6)</sup>	2,894,980	1,989,567	Quarterly	90 days
Global diversified credit funds <sup>(5)</sup>	2,591,759	1,398,438	Semi-annual	90 days
Credit oriented hedge funds <sup>(1)</sup>	2,589,107	180,198	Monthly, quarterly, semi- annual, annually	45-60 days
Equity oriented hedge funds <sup>(2)</sup>	1,791,385	496,525	Quarterly, semi-annual, annually	45-92 days
Real asset funds <sup>(8)</sup>	1,728,010	1,255,885	Daily, monthly	1-30 days
Debt related private equity funds <sup>(10)</sup>	708,447	822,376	None	N/A
Venture capital private equity funds <sup>(11)</sup>	476,596	101,879	None	N/A
Real estate funds -Debt <sup>(7)</sup>	473,184	472,856	Quarterly	90 days
Multi-strategy hedge funds <sup>(4)</sup>	365,950	—	Quarterly	None
Opportunistic private equity funds <sup>(9)</sup>	335,360	307,696	None	N/A
Secondary private equity funds <sup>(12)</sup>	<u>92,513</u>	<u>28,756</u>	None	N/A
Total investment measured at the NAV	<u>\$ 23,954,996</u>	<u>9,857,056</u>		

1. Credit oriented hedge funds includes investments in 13 hedge fund and separate account strategies that includes both credit and distressed debt funds. Credit strategies typically invest both long and short in high yield and high-grade bonds, and structured products using fundamental credit analysis. These securities tend to be relatively liquid. Distressed debt strategies take advantage of corporate securities in default, under bankruptcy protection, in distress, or in liquidation. These securities are often illiquid. Investments representing approximately 42% of the value of the investments cannot be redeemed because the investment includes restrictions that do not allow for redemptions. As of June 30, 2016, these remaining redemption restriction periods range from 3 to 30 months. Three investments valued at \$527 million at June 30, 2016 have a 25% investor-level gate restriction. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
2. Equity oriented hedge funds includes investments in 16 hedge fund and separate account strategies that includes both equity long/short and event driven funds. Equity long/short funds hold a combination of long and short positions primarily in publicly traded equities. Event driven funds invest in merger arbitrage, capital structure arbitrage, relative value, activist or other similar strategies. Investments representing approximately 31% of the value of the investments cannot be redeemed because the investment includes restrictions that do not allow for redemptions. As of June 30, 2016, these remaining redemption restriction periods range from 9 to 24 months. One investment valued at \$108 million at June 30, 2016 has a 25%

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investor-level gate restriction. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.

3. Opportunistic hedge funds includes investments in 9 hedge funds that invest in speculative opportunities with high net market exposure across varied markets. Opportunistic funds include global macro funds, commodity trading advisor funds, and funds employing other similar strategies. Investments representing approximately 16% of the value of the investments in this type cannot be redeemed because the investments include restrictions. As of June 30, 2016, this remaining redemption restriction period is 18 months. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
4. Multi-strategy hedge funds includes investments in 5 hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments.
5. Global diversified credit funds includes investments in 14 funds and separate account investments that make investment in mezzanine debt, credit structured products, commercial and residential mortgage-backed securities, commercial and residential whole loans, and other similar strategies. Investments representing approximately 82% of the value of the investments in this type cannot be redeemed because the investments include restrictions. As of June 30, 2016, these remaining redemption restriction periods range from 9 to 40 months. Investments representing approximately 4% can never be redeemed. Distributions from each investment will be received as the underlying investments of the funds and separate accounts are liquidated. It is expected that the underlying assets will be liquidated over the next 3 to 8 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
6. Real estate funds - Equity includes investments in 40 funds or separate accounts that make investments in the equity of the underlying asset, where the investor acts as a shareholder in a specific property and receives a share of the rental income the property generates. Investments representing approximately 73% of real estate equity investments can never be redeemed. Distributions from each fund and separate account will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next 2 to 10 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
7. Real estate funds - Debt includes investments in 6 funds or separate accounts that make investments in the debt of the underlying asset, where the investor acts as a lender to the property owner and receives an interest rate on the loan. Investments representing approximately 58% of real estate debt investments can never be redeemed. Distributions from each fund and separate account will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next 5 to 8 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
8. Real asset funds includes investments in 19 fund or separate account strategies, which invests in the equity or debt of infrastructure, energy, utilities, water, timber, agriculture, metals, mining, and commodity-related and commodity-linked investments. Real asset investments include investments in products, services and technology related to the above. Investments representing approximately 80% can never be redeemed. Distributions from each fund and separate account will be received as the underlying



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investments are liquidated. It is expected that the underlying assets will be liquidated over the next 3 to 12 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.

9. Opportunistic private equity funds includes investments in 3 funds and separate accounts which acquire minority equity interests in investment management companies. Investments representing approximately 76% of the value of the investments have a perpetual term and cannot be redeemed. Investments representing approximately 24% of the value of the investments can be redeemed after 9 years or December 2025. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
10. Debt related private equity funds includes investments in 24 funds employing distressed, turnaround and mezzanine debt strategies. Distressed debt involves purchasing debt securities that are trading at a distressed level, in anticipation that those securities will have a higher market valuation and generate profit at a future date, or strategies, which take a position to potentially gain control of an asset. Turnaround investments focus on purchasing equity in companies that are in distress, and aim to subsequently restore the company to profitability. Mezzanine debt strategies provide a middle level of financing in leveraged buyouts, which is below the senior debt layer and above the equity layer. A typical mezzanine investment includes a loan to the borrower, in addition to the borrower's issuance of equity in the form of warrants, common stock, preferred stock, or some other equity investment. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 12 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
11. Venture capital private equity funds includes investments in 6 partnership vehicles that make equity investments primarily in high growth companies during their early or expansion stages. These companies may or may not have revenues or a client base and in most cases will not be cash flow positive. Distributions from each vehicle will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next 2 to 12 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
12. Secondary private equity funds includes investments in 6 funds that purchase secondary interests in private equity partnerships. The underlying investments represent ownership interests in private equity funds managed by buyout or venture capital firms after the capital has been deployed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next 3 to 10 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.
13. Buyout private equity funds includes investments in 68 partnership vehicles, which invest primarily in the equity of established operating companies in order to restructure the target company's reserve capital, management and/or organizational structure or facilitate ongoing growth of the firm. Return on investment is typically realized through an initial public offering, sale or merger of the company, or a recapitalization. It is expected that the underlying assets will be liquidated over the next 1 to 12 years. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the investment.

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**(8) Local Employer's Contributions under Chapter 19, P.L. 2009**

As discussed in Note 1, in the fiscal year ended June 30, 2009, the State passed Chapter 19, P.L. 2009 to allow local employers of PFRS and PERS to contribute 50% of the normal and accrued liability contributions amounts, while deferring the remaining amount for a 15-year period with payments beginning in the fiscal year ended June 30, 2012. At June 30, 2016, the remaining receivable balances related to Chapter 19, P.L. 2009 were \$129.3 million and \$43.9 million for PFRS and PERS, respectively.

**(9) OPEB Plans Funded Status**

The following represents the funded status of each of the State Health Benefit Plans as of the most recent actuarial valuation date of July 1, 2015.

	<u>SHBP – State</u>	<u>SHBP – Local</u>	<u>SHBP – Education</u>
Actuarial value of assets	\$ —	—	—
Actuarial accrued liability	25,937,400,000	16,800,900,000	41,565,900,000
Unfunded (overfunded) actuarial accrued liability	25,937,400,000	16,800,900,000	41,565,900,000
Funded ratio	—	—	—
Covered payroll	\$ 7,660,189,014	2,945,900,000	12,277,410,986
Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll	338.60%	570.30%	338.60%

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*Actuarial Assumptions*

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and these amounts and assumptions are subject to continual revision as actual results are compared to past expectations. Calculations are based on the benefits provided under the terms of the plan in effect and the pattern of cost sharing between employees and the employer. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. A summary of the significant actuarial methods and assumptions used by SHBP – State, SHBP – Local, and SHBP – Education as of the most recent actuarial date of July 1, 2015 are as follows:

	<u>SHBP – State</u>	<u>SHBP – Local</u>	<u>SHBP – Education</u>
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open
Remaining amortization period	30 years	30 years	30 years
Actuarial assumptions:			
Interest rate	4.50% (assuming no prefunding)	4.50% (assuming no prefunding)	4.50% (assuming no prefunding)
Salary range	N/A	N/A	N/A
Cost-of-living adjustments	N/A	N/A	N/A

For pre-Medicare PPO medical benefits, this amount initially is 6.0% and decreases to a 5.0% long-term trend rate after ten years. For post-65 PPO medical benefits, the trend rate is 4.5%. For HMO medical benefits, the trend rate is initially 6.0% and decreases to a 5.0% long-term trend rate after nine years. For prescription drug benefits, the initial trend rate is 11.0% decreased to a 5.0% long-term trend rate after nine years. For the Medicare Part B reimbursement, the trend rate is 5.0%. This reflects the known underlying cost of the Part B premium.

Refer to Schedules 4 and 5 for multi-year required supplementary information related to these OPEB plans.

**(10) Reserves**

The Plans maintain the following legally required reserves as follows (amounts indicated in parenthesis represent net position restricted for the respective reserve as indicated):

***Members' Annuity Savings Reserve and Accumulative Interest Reserve – JRS (\$60,940,480); SPRS (\$197,482,820); TPAF (\$11,783,696,363); PFRS (\$3,614,531,970); PERS (\$13,970,809,778)***

The Members' Annuity Savings Reserve (New Jersey Statutes Annotated (NJSA): JRS 43:6A- 34.1 and 34.2; SPRS 53:5A-35; TPAF 18A:66-19 and 25; PFRS 43:16A-16; PERS 43:15A-25 and 33) is credited with all contributions made by active members of the Plans. Interest earned on member contributions is credited to the Accumulative Interest Reserve, which is applied to JRS, TPAF and PERS. Member withdrawals are paid out of these Reserves.

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***Contingent Reserve – JRS (\$-86,829,409); SPRS (\$709,287,553); TPAF (\$-25,939,180,994); PERS (\$-16,946,584,348)***

The Contingent Reserve (NJSA: JRS 43:6A-33; SPRS 53:5A-34; TPAF 18A:66-18; PERS 43:15A-24) is credited with the contributions of contributing employers. Interest earnings, after crediting the Accumulative Interest Reserve and Retirement Reserve, as required, are credited to this account. Additionally, payments for administrative and miscellaneous expenses are made from this Reserve.

***Retirement Reserve – JRS (\$205,888,749); SPRS (\$788,191,739); TPAF (\$36,873,347,598); PFRS (\$23,813,371,687); PERS (\$29,484,467,092)***

The Retirement Reserve (NJSA: JRS 43:6A-34; SPRS 53:5A-36; TPAF 18A:66-21; PFRS 43:16A-16; PERS 43:15A-27) is the account from which retirement benefits including COLA adjustments are paid. Upon retirement of a member, accumulated contributions together with accumulated interest are transferred to the Retirement Reserve from the Members' Annuity Savings Reserve and Accumulative Interest Reserve. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve or Pension Accumulation Reserve. Annually, interest as determined by the State Treasurer (7.65% for State fiscal year 2016) is credited to the Retirement Reserve.

***Retirement Reserve – POPF (\$6,111,233)***

The Retirement Reserve (NJSA: POPF 43:7-13) is credited with State of New Jersey contributions and investment income. In addition, all benefits are paid from this account.

***Non-Contributory Group Insurance Premium Reserve – PFRS – Local (\$27,544,768); PERS – Local (\$62,147,069)***

The Non-Contributory Group Insurance Premium Reserve (NJSA: PFRS 43:16A-56; PERS 43:15A-91) represents the accumulation of employer group life 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 life insurance plan in the first year of membership. TPAF, PFRS – State and PERS – State show a zero balance as these premium expenses are funded on a monthly basis.

***Pension Accumulation Reserve – PFRS (\$-3,470,721,761)***

The Pension Accumulation Reserve (NJSA: PFRS 43:16A-16) is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the Retirement Reserve, as required, are credited to this account. Additionally, payments for administrative and miscellaneous expenses are made from this Reserve.

***Pension Reserve – CPFPP (\$1,894,928)***

The Pension Reserve (NJSA: CPFPP 43:16-5) is credited with State of New Jersey contributions and investment income.

***Alternate Benefit – Long Term Disability Reserve (\$1,874,778)***

The reserve balance of the ABPLTD (NJSA: 18A:66-177) is available for future payments to participants.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

***Benefit Enhancement Reserve – PERS – Local (\$191,231,019)***

The Benefit Enhancement Reserve (NJSA: 43:15A-22) is a special reserve from which the required normal contributions to provide benefit increases under Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001 will be charged. The reserve was established in 2002 and credited with excess assets equivalent to member contributions for State fiscal years 2000 and 2001 by transferring reserves in the Contingent Reserve to the Benefit Enhancement Reserve. Additional transfers will be made, as required, to maintain a reserve balance equal to the present value of expected additional normal contributions due to the increased benefits.

***SHBP Reserve Fund – State (\$-244,611,401)***

The State uses this fund (NJSA: SHBP 52:14-17.42) to cover claims payments.

***SHBP Reserve Fund – Local (\$266,900,433)***

The net position of SHBP – Local (NJSA: SHBP 52:14-17.42) is available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

***SHBP Reserve Fund – Education (\$72,834,902)***

The net position of SHBP – Education (NJSA: SHBP 52:14-17.42) is available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2016

Various reserve balances as of June 30, 2016 are as follows:

	<u>Pension Reserves</u>	<u>Other Postemployment Benefit Plan Reserves</u>
Members' Annuity Savings Reserve and Accumulated		
Interest Reserve	\$ 29,627,461,411	—
Contingent Reserve	(42,263,307,198)	—
Retirement Reserve	91,171,378,098	—
Non-Contributory Group Insurance Premium Reserve	89,691,837	—
Pension Accumulation Reserve	(3,470,721,761)	—
Pension Reserve	1,894,928	—
Alternate Benefit - Long Term Disability Reserve	1,874,778	—
SHBP Reserve	—	95,123,934
Benefit Enhancement Reserve	191,231,019	—
Variable Accumulation Reserve (N.J.S.A.: DCRP (43:15C-1), NJSEDCP (52:18A-164), SACT (52:18A-109))	3,747,884,092	—
Variable Benefits Reserve (N.J.S.A.: SACT 52:18A-109)	36,018,098	—
Total	<u>\$ 79,133,405,302</u>	<u>95,123,934</u>

**(11) Contingencies**

The Division is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Division's financial statements.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plans

Judicial Retirement System

(Unaudited)

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 33,333,864	30,702,986	32,123,341
Interest on total pension liability	36,471,524	41,473,055	40,332,123
Effect of economic/demographic (gains) or losses	254,822	(1,733,197)	—
Effect of assumptions changes or inputs	85,677,552	(41,873,530)	26,907,821
Transfers from other systems	726,284	2,081,523	—
Benefit payments	<u>(54,686,521)</u>	<u>(52,430,016)</u>	<u>(49,604,080)</u>
Net change in total pension liability	101,777,525	(21,779,179)	49,759,205
Total pension liability-beginning	<u>878,964,581</u>	<u>900,743,760</u>	<u>850,984,555</u>
Total pension liability-ending (a)	<u>\$ 980,742,106</u>	<u>878,964,581</u>	<u>900,743,760</u>
Plan fiduciary net pension:			
Contributions-employer	\$ 14,794,774	17,031,026	15,874,857
Contributions-employee	9,271,869	6,310,124	5,096,577
Net investment (loss) income	(2,721,949)	8,475,641	34,448,036
Transfers from other systems	726,284	2,081,523	—
Benefit payments, including refunds of employee contributions	(54,686,521)	(52,430,016)	(49,604,080)
Administrative expense	<u>(168,008)</u>	<u>(168,762)</u>	<u>(162,372)</u>
Net change in Plan fiduciary net position	(32,783,551)	(18,700,464)	5,653,018
Plan fiduciary net position-beginning	212,783,371	231,483,835	225,830,817
Plan fiduciary net position-ending (b)	<u>179,999,820</u>	<u>212,783,371</u>	<u>231,483,835</u>
Plan's net pension liability-ending (a)-(b)	<u>\$ 800,742,286</u>	<u>666,181,210</u>	<u>669,259,925</u>
Plan fiduciary net position as a percentage of the total pension liability	18.35%	24.21%	25.70%
Covered-employee payroll	\$ 67,097,166	66,028,491	67,810,110
Net pension liability as a percentage of covered-employee payroll	1193.41%	1008.93%	986.96%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:*

None

*Changes in assumptions:*

For 2016, the discount rate changed to 3.11% and the long-term expected rate of return changed to 7.65%. Further, salary increases were assumed to increase 2.00% through fiscal year 2025 and 3.00% for each fiscal year thereafter. For 2015, the discount rate changed to 4.12% and the demographic assumptions were revised to reflect those recommended on the basis of the July 1, 2011 - June 30, 2014 experience study. For 2014, the discount rate was 4.58%.

*Adjustments to June 30, 2015 reported amounts:*

The categories composing the changes in total pension liability were changed from previously reported amounts in the Division's 2015 CAFR to reflect updated mortality assumptions based on a recent actuarial experience study that was released between the date of the Division's 2015 CAFR and the JRS Schedule of Pension Amounts.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plans

State Police Retirement System

(Unaudited)

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 113,546,510	93,740,921	93,623,020
Interest on total pension liability	221,675,495	216,980,562	209,010,706
Effect of economic/demographic (gains) or losses	(17,580,385)	35,245,543	—
Effect of assumptions changes or inputs	747,941,075	435,691,094	92,686,900
Transfers from other systems	54,000	222,557	—
Benefit payments	(213,436,150)	(206,493,624)	(197,958,938)
Net change in total pension liability	852,200,545	575,387,053	197,361,688
Total pension liability-beginning	4,821,505,776	4,246,118,723	4,048,757,035
Total pension liability-ending (a)	<u>\$ 5,673,706,321</u>	<u>4,821,505,776</u>	<u>4,246,118,723</u>
Plan fiduciary net pension:			
Contributions-employer	\$ 37,435,541	38,527,297	36,436,923
Contributions-employee	22,818,295	22,315,431	24,034,496
Net investment (loss) income	(19,284,054)	75,532,779	287,098,217
Transfers from other systems	54,000	222,557	—
Benefit payments, including refunds of employee contributions	(213,436,150)	(206,493,624)	(197,958,938)
Administrative expense	(334,630)	(351,724)	(280,026)
Net change in Plan fiduciary net position	(172,746,998)	(70,247,284)	149,330,672
Plan fiduciary net position-beginning	1,867,709,110	1,937,956,394	1,788,625,722
Plan fiduciary net position-ending (b)	1,694,962,112	1,867,709,110	1,937,956,394
Plan's net pension liability-ending (a)-(b)	<u>\$ 3,978,744,209</u>	<u>2,953,796,666</u>	<u>2,308,162,329</u>
Plan fiduciary net position as a percentage of the total pension liability	29.87%	38.74%	45.64%
Covered-employee payroll	\$ 275,477,457	262,496,289	262,063,829
Net pension liability as a percentage of covered-employee payroll	1444.31%	1125.27%	880.76%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:*

None

*Changes in assumptions:*

For 2016, the discount rate changed to 3.55% and the long-term expected rate of return changed to 7.65%. Further, salary increases were assumed to increase 2.95% through fiscal year 2025 and 3.95% for each fiscal year thereafter. For 2015, the discount rate changed to 4.59% and the demographic assumptions were revised to reflect those recommended on the basis of the July 1, 2011 - June 30, 2014 experience study. In addition, the social security wage base was set at \$118,500 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at \$265,000 for 2015, increasing 3.00% per annum, compounded annually. For 2014, the discount rate was 5.12%.

*Adjustments to June 30, 2015 reported amounts:*

The categories composing the changes in total pension liability were changed from previously reported amounts in the Division's 2015 CAFR to reflect updated mortality assumptions based on a recent actuarial experience study that was released between the date of the Division's 2015 CAFR and the SPRS Schedule of Pension Amounts.

See accompanying independent auditors' report.



**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plans

Prison Officers' Pension Fund

(Unaudited)

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ —	—	—
Interest on total pension liability	251,254	331,362	401,659
Effect of economic/demographic (gains) or losses	96,657	(296,620)	—
Effect of assumptions changes or inputs	1,171,953	163,490	129,449
Transfers from other systems	—	—	—
Benefit payments	<u>(1,240,307)</u>	<u>(1,377,505)</u>	<u>(1,583,408)</u>
Net change in total pension liability	279,557	(1,179,273)	(1,052,300)
Total pension liability-beginning	<u>7,226,313</u>	<u>8,405,586</u>	<u>9,457,886</u>
Total pension liability-ending (a)	<u>\$ 7,505,870</u>	<u>7,226,313</u>	<u>8,405,586</u>
Plan fiduciary net pension:			
Contributions-employer	\$ 634,217	698,360	793,174
Net investment income	18,067	6,355	7,368
Benefit payments, including refunds of employee contributions	(1,240,307)	(1,377,505)	(1,583,408)
Administrative expense	<u>(5,312)</u>	<u>(5,843)</u>	<u>(5,853)</u>
Net change in Plan fiduciary net position	(593,335)	(678,633)	(788,719)
Plan fiduciary net position-beginning	6,704,568	7,383,201	8,171,920
Plan fiduciary net position-ending (b)	<u>6,111,233</u>	<u>6,704,568</u>	<u>7,383,201</u>
Plan's net pension liability-ending (a)-(b)	<u>\$ 1,394,637</u>	<u>521,745</u>	<u>1,022,385</u>
Plan fiduciary net position as a percentage of the total pension liability	81.42%	92.78%	87.84%
Covered-employee payroll	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:*

None

*Changes in assumptions:*

For 2016, the discount rate changed to 2.85%. Further, the mortality improvement assumption was revised to be projected on a generational basis from the base year of 2000 to 2014 using Projection Scale BB as the base tables and further projected beyond the valuation date using the plan actuary's modified 2014 projection. Further, the RP-2000 disabled retiree mortality table is used for the period after disability retirement for disability retirements. For 2015, the discount rate changed to 3.80%. For 2014, the discount rate was 4.29%.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plans

Consolidated Police and Firemen's Pension Fund

(Unaudited)

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ —	—	—
Interest on total pension liability	352,889	504,066	632,080
Effect of economic/demographic (gains) or losses	(71,313)	(993,528)	—
Effect of assumptions changes or inputs	1,273,909	193,719	163,528
Benefit payments	(1,881,252)	(2,445,627)	(2,942,035)
Net change in total pension liability	(325,767)	(2,741,370)	(2,146,427)
Total pension liability-beginning	10,218,402	12,959,772	15,106,199
Total pension liability-ending (a)	<u>\$ 9,892,635</u>	<u>10,218,402</u>	<u>12,959,772</u>
Plan fiduciary net pension:			
Contributions-employer	\$ 1,344,017	1,577,751	1,900,831
Net investment income	10,856	198	585
Benefit payments, including refunds of employee contributions	(1,881,252)	(2,445,627)	(2,942,035)
Administrative expense	(6,643)	(8,003)	(9,566)
Net change in Plan fiduciary net position	(533,022)	(875,681)	(1,050,185)
Plan fiduciary net position-beginning	2,427,950	3,303,631	4,353,816
Plan fiduciary net position-ending (b)	1,894,928	2,427,950	3,303,631
Plan's net pension liability-ending (a)-(b)	<u>\$ 7,997,707</u>	<u>7,790,452</u>	<u>9,656,141</u>
Plan fiduciary net position as a percentage of the total pension liability	19.15%	23.76%	25.49%
Covered-employee payroll	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:*

None

*Changes in assumptions:*

For 2016, the discount rate changed to 2.85%. Further, the mortality improvement assumption was revised to be projected on a generational basis from the base year of 2000 to 2014 using Projection Scale BB as the base tables and further projected beyond the valuation date using the plan actuary's modified 2014 projection. Further, the RP-2000 disabled retiree mortality table is used for the period after disability retirement for disability retirements. For 2015, the discount rate changed to 3.80%. For 2014, the discount rate was 4.29%.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plans

Teachers' Pension and Annuity Fund

(Unaudited)

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 2,344,321,810	2,022,411,197	1,870,901,832
Interest on total pension liability	3,694,844,118	3,797,032,970	3,794,362,523
Effect of economic/demographic (gains) or losses	(134,644,168)	365,228,279	(24,898,221)
Effect of assumptions changes or inputs	10,827,093,000	5,913,556,000	2,614,173,709
Transfers from other systems	1,564,002	4,117,141	—
Benefit payments	<u>(4,169,070,762)</u>	<u>(4,015,003,587)</u>	<u>(3,837,859,513)</u>
Net change in total pension liability	12,564,108,000	8,087,342,000	4,416,680,330
Total pension liability-beginning	<u>89,182,662,000</u>	<u>81,095,320,000</u>	<u>76,678,639,670</u>
Total pension liability-ending (a)	<u>\$ 101,746,770,000</u>	<u>89,182,662,000</u>	<u>81,095,320,000</u>
Plan fiduciary net pension:			
Contributions-employer	\$ 1,105,810	807,246	4,688,045
Contributions-nonemployer	798,963,467	539,796,289	423,012,101
Contributions-employee	761,711,695	740,296,265	716,183,306
Net investment (loss) income	(267,684,353)	1,066,062,926	4,100,273,453
Transfers from other systems	1,564,002	4,117,141	—
Other	243,660	358,899	—
Benefit payments, including refunds of employee contributions	(4,169,070,762)	(4,015,003,587)	(3,837,859,513)
Administrative expense	<u>(13,768,112)</u>	<u>(13,890,080)</u>	<u>(12,170,971)</u>
Net change in Plan fiduciary net position	(2,886,934,593)	(1,677,454,901)	1,394,126,421
Plan fiduciary net position-beginning	25,604,797,560	27,282,252,461	25,888,126,040
Plan fiduciary net position-ending (b)	<u>22,717,862,967</u>	<u>25,604,797,560</u>	<u>27,282,252,461</u>
Plan's net pension liability-ending (a)-(b)	<u>\$ 79,028,907,033</u>	<u>63,577,864,440</u>	<u>53,813,067,539</u>
Plan fiduciary net position as a percentage of the total pension liability	22.33%	28.71%	33.64%
Covered-employee payroll	\$ 10,305,472,484	10,162,263,470	10,038,792,896
Net pension liability as a percentage of covered-employee payroll	766.86%	625.63%	536.05%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:*

None

*Changes in assumptions:*

For 2016, the discount rate changed to 3.22% and the long-term expected rate of return changed to 7.65%. Further, the demographic assumptions were revised to reflect those recommended on the basis of the July 1, 2012 - June 30, 2015 experience study. For 2015, the discount rate changed to 4.13%. For 2014, the discount rate was at 4.68%.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plans

Police and Firemen's Retirement System

(Unaudited)

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 1,148,613,712	994,248,683	1,079,166,175
Interest on total pension liability	2,751,445,220	2,680,664,300	2,535,619,539
Effect of economic/demographic (gains) or losses	(34,916,637)	(215,122,438)	—
Effect of assumptions changes or inputs	343,078,737	3,755,474,472	649,814,155
Transfers from other systems	358,929	800,782	—
Benefit payments	<u>(2,324,175,953)</u>	<u>(2,205,464,297)</u>	<u>(2,105,829,011)</u>
Net change in total pension liability	1,884,404,008	5,010,601,502	2,158,770,858
Total pension liability-beginning	<u>47,517,765,905</u>	<u>42,507,164,403</u>	<u>40,348,393,545</u>
Total pension liability-ending (a)	<u>\$ 49,402,169,913</u>	<u>47,517,765,905</u>	<u>42,507,164,403</u>
Plan fiduciary net pension:			
Contributions-employer	\$ 900,033,567	883,776,917	858,047,628
Contributions-nonemployer	61,466,000	76,038,000	—
Contributions-employee	388,681,408	386,991,641	385,660,096
Net investment (loss) income	(150,693,159)	922,598,676	3,381,553,869
Transfers from other systems	358,929	800,782	—
Employer specific contributions - additional contribution	1,923,531	535,424	—
Employer specific contributions - delayed appropriation	763,176	865,936	—
Employer specific contributions - delayed enrollments	142,034	224,629	—
Employer specific contributions - retroactive	3,661,101	24,536,440	—
Benefit payments, including refunds of employee contributions	(2,324,175,953)	(2,205,464,297)	(2,105,829,011)
Administrative expense	<u>(4,292,891)</u>	<u>(4,531,012)</u>	<u>(3,884,342)</u>
Net change in Plan fiduciary net position	(1,122,132,257)	86,373,136	2,515,548,240
Plan fiduciary net position-beginning	25,106,858,921	25,020,485,785	22,504,937,545
Plan fiduciary net position-ending (b)	<u>23,984,726,664</u>	<u>25,106,858,921</u>	<u>25,020,485,785</u>
Plan's net pension liability-ending (a)-(b)	<u>\$ 25,417,443,249</u>	<u>22,410,906,984</u>	<u>17,486,678,618</u>
Plan fiduciary net position as a percentage of the total pension liability	48.55%	52.84%	58.86%
Covered-employee payroll	\$ 3,695,509,355	3,682,677,356	3,678,910,266
Net pension liability as a percentage of covered-employee payroll	687.79%	608.55%	475.32%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:*

None

*Changes in assumptions:*

For 2016, the discount rate changed to 5.55%, the long-term expected rate of return changed to 7.65%, and the mortality improvement scale incorporated the plan actuary's modified 2014 projection scale. Further, salary increases were assumed to increase between 2.10% and 8.98% (based on age) through fiscal year 2026 and 3.10% and 9.98% (based on age) for each fiscal year thereafter. For 2015, the discount rate changed to 5.79% and demographic assumptions were revised in accordance with the results of the July 1, 2010 - June 30, 2013 experience study. For 2014, the discount rate was 6.32%.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plans

Public Employees' Retirement System

(Unaudited)

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 1,628,065,678	1,523,631,386	1,592,214,831
Interest on total pension liability	3,653,373,426	3,647,688,354	3,506,486,225
Effect of economic/demographic (gains) or losses	600,806,505	1,050,795,158	—
Effect of assumptions changes or inputs	8,792,817,065	4,091,557,460	1,222,437,554
Transfers from other systems	778,753	1,651,542	—
Benefit payments	<u>(3,629,651,915)</u>	<u>(3,441,046,065)</u>	<u>(3,259,290,114)</u>
Net change in total pension liability	11,046,189,512	6,874,277,835	3,061,848,496
Total pension liability-beginning	<u>74,723,698,562</u>	<u>67,849,420,727</u>	<u>64,787,572,231</u>
Total pension liability-ending (a)	<u>\$ 85,769,888,074</u>	<u>74,723,698,562</u>	<u>67,849,420,727</u>
Plan fiduciary net pension:			
Contributions-employer	\$ 1,273,425,342	1,085,237,214	917,689,000
Contributions-employee	821,305,787	805,232,235	797,818,225
Net investment (loss) income	(237,215,643)	1,117,827,113	4,102,964,869
Transfers from other systems	778,753	1,651,542	—
Employer specific contributions - additional contribution	257,850	111,824	—
Employer specific contributions - delayed appropriation	1,721,199	1,664,415	—
Employer specific contributions - delayed enrollments	532,612	594,843	—
Employer specific contributions - retroactive	687,225	6,504,878	—
Other	(51,586)	(31,006)	—
Benefit payments, including refunds of employee contributions	(3,629,651,915)	(3,441,046,065)	(3,259,290,114)
Administrative expense	<u>(23,285,920)</u>	<u>(23,761,860)</u>	<u>(21,756,019)</u>
Net change in Plan fiduciary net position	(1,791,496,296)	(446,014,867)	2,537,425,961
Plan fiduciary net position-beginning	28,553,566,906	28,999,581,773	26,462,155,812
Plan fiduciary net position-ending (b)	<u>26,762,070,610</u>	<u>28,553,566,906</u>	<u>28,999,581,773</u>
Plan's net pension liability-ending (a)-(b)	<u>\$ 59,007,817,464</u>	<u>46,170,131,656</u>	<u>38,849,838,954</u>
Plan fiduciary net position as a percentage of the total pension liability	31.20%	38.21%	42.74%
Covered-employee payroll	\$ 11,320,198,747	11,441,433,226	11,448,531,265
Net pension liability as a percentage of covered-employee payroll	521.26%	403.53%	339.34%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:*

None

*Changes in assumptions:*

For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65%, demographic assumptions were revised in accordance with the results of the July 1, 2011 - June 30, 2014 experience study and the mortality improvement scale incorporated the plan actuary's modified MP-2014 projection scale. Further, salary increases were assumed to increase between 1.65% and 4.15% (based on age) through fiscal year 2026 and 2.65% and 5.15% (based on age) for each fiscal year thereafter. For 2015, the discount rate changed to 4.90%. In addition, the social security wage base was set at \$118,500 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at \$265,000 for 2015, increasing 3.00% per annum, compounded annually. For 2014, the discount rate was 5.39%.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Employer Contributions - Defined Benefit Pension Plans

(Unaudited)

	<b>Actuarially determined contribution</b>	<b>Actual employer contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contribution as a percentage of covered payroll</b>
<b>Judicial Retirement System</b>					
Year ended June 30:					
2016	\$ 47,305,819	14,794,774	32,511,045	67,097,166	22.05%
2015	45,136,504	17,031,026	28,105,478	66,028,491	25.79
2014	43,922,167	15,874,681	28,047,486	67,810,110	23.41
2013	45,415,467	12,308,227	33,107,240	67,497,660	18.24
2012	42,475,660	5,969,713	36,505,947	67,437,125	8.85
2011	38,450,553	651,718	37,798,835	71,746,413	0.91
2010	32,540,704	1,032,857	31,507,847	70,133,372	1.47
2009	29,809,782	1,696,843	28,112,939	67,159,516	2.53
2008	27,171,100	12,913,890	14,257,210	63,144,685	20.45
2007	25,174,191	12,741,898	12,432,293	62,492,250	20.39
<b>Prison Officers' Pension Fund</b>					
Year ended June 30:					
2016	\$ —	—	—	N/A	N/A
2015	—	—	—	N/A	N/A
2014	—	—	—	N/A	N/A
2013	—	—	—	N/A	N/A
2012	—	—	—	N/A	N/A
2011	—	—	—	N/A	N/A
2010	—	—	—	N/A	N/A
2009	—	—	—	N/A	N/A
2008	—	—	—	N/A	N/A
2007	—	—	—	N/A	N/A
<b>State Police Retirement System</b>					
Year ended June 30:					
2016	\$ 120,800,705	37,435,541	83,365,164	275,477,457	13.59%
2015	110,904,703	38,527,297	72,377,406	262,496,289	14.68
2014	105,093,378	36,379,273	68,714,105	262,063,829	13.88
2013	99,876,582	27,777,047	72,099,535	283,219,927	9.81
2012	98,869,662	13,545,607	85,324,055	275,219,752	4.92
2011	114,120,061	2,201,604	111,918,457	289,980,657	0.76
2010	91,411,237	1,018,200	90,393,037	287,267,502	0.35
2009	86,385,254	5,574,860	80,810,394	281,087,566	1.98
2008	78,761,279	36,443,502	42,317,777	275,301,995	13.24
2007	56,502,006	29,268,194	27,233,812	263,220,592	11.12

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Employer Contributions - Defined Benefit Pension Plans

(Unaudited)

	<b>Actuarially determined contribution</b>	<b>Actual employer contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contribution as a percentage of covered payroll</b>
<b>Consolidated Police and Firemen's Pension Fund</b>					
Year ended June 30:					
2016	\$ 491,683	148,000	343,683	N/A	N/A
2015	—	—	—	N/A	N/A
2014	864,041	—	864,041	N/A	N/A
2013	1,095,632	896,883	198,749	N/A	N/A
2012	1,240,860	174,000	1,066,860	N/A	N/A
2011	528,714	—	528,714	N/A	N/A
2010	1,678,690	—	1,678,690	N/A	N/A
2009	1,824,798	1,256,000	568,798	N/A	N/A
2008	2,388,591	523,000	1,865,591	N/A	N/A
2007	8,474,210	1,784,000	6,690,210	N/A	N/A
<b>Teachers' Pension and Annuity Fund</b>					
Year ended June 30:					
2016	\$ 2,544,811,534	764,489,000	1,780,322,534	10,305,472,484	7.42%
2015	2,306,611,715	504,320,000	1,802,291,715	10,162,263,470	4.96
2014	2,158,287,358	392,035,985	1,766,251,373	10,038,792,896	3.91
2013	2,331,811,395	647,059,335	1,684,752,060	9,779,212,916	6.62
2012	2,269,823,968	317,927,358	1,951,896,610	9,682,318,739	3.28
2011	2,123,175,951	30,655,332	2,092,520,619	10,025,401,658	—
2010	1,796,358,016	33,199,655	1,763,158,361	9,747,020,060	—
2009	1,601,478,508	95,863,972	1,505,614,536	9,419,083,203	1.02
2008	1,550,503,836	695,275,811	855,228,025	9,077,628,813	7.66
2007	1,407,249,580	690,794,259	716,455,321	8,748,623,186	7.90
<b>Police and Firemen's Retirement System</b>					
Year ended June 30:					
2016	\$ 1,311,849,713	986,654,840	325,194,873	3,695,509,355	26.70%
2015	1,217,110,411	941,950,336	275,160,075	3,682,677,356	25.58
2014	1,150,719,106	880,431,697	270,287,409	3,678,910,266	23.93
2013	1,279,412,723	895,743,379	383,669,344	3,656,218,573	24.50
2012	1,238,132,402	826,461,015	411,671,387	3,649,416,297	22.65
2011	1,337,424,856	889,724,548	447,700,308	3,720,534,369	23.91
2010	1,161,763,447	758,722,185	403,041,262	3,673,674,523	20.65
2009	1,048,234,663	716,491,044	331,743,619	3,596,254,177	19.92
2008	960,856,263	780,799,395	180,056,868	3,459,839,699	22.57
2007	801,216,011	550,911,183	250,304,828	3,278,999,899	16.80

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Employer Contributions - Defined Benefit Pension Plans

(Unaudited)

	<u>Actuarially determined contribution</u>	<u>Actual employer contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contribution as a percentage of covered payroll</u>
	<b>Public Employees' Retirement System</b>				
Year ended June 30:					
2016	\$ 2,097,570,117	1,265,246,226	832,323,891	11,320,198,747	11.18%
2015	1,935,315,246	1,067,584,583	867,730,663	11,441,433,226	9.33
2014	1,797,073,081	941,023,184	856,049,897	11,448,531,265	8.22
2013	1,911,359,009	1,087,389,140	823,969,869	11,433,091,635	9.51
2012	1,895,158,413	976,093,907	919,064,506	11,609,042,726	8.41
2011	1,824,391,081	832,016,186	992,374,895	11,981,354,783	6.94
2010	1,422,475,763	640,282,996	782,192,767	11,995,447,141	5.34
2009	1,285,791,399	627,989,949	657,801,450	11,815,800,825	5.31
2008	1,145,564,136	646,690,366	498,873,770	11,418,467,816	5.66
2007	762,290,568	457,860,138	304,430,430	10,983,873,428	4.17

See accompanying independent auditors' report.



**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Employer Contributions - Defined Benefit Pension Plans

Last 10 Fiscal Years

(Unaudited)

**Notes to Schedule:**

*Method and assumptions used in calculations of employers' actuarially determined contributions:* The actuarially determined contributions are calculated as of July 1 preceding the fiscal year in which the contributions are reported. Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates in the Schedule of Employer Contributions.

	<b>JRS</b>	<b>POPF</b>	<b>SPRS</b>	<b>CFPPF</b>	<b>TPAF</b>	<b>PFRS</b>	<b>PERS</b>
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar, open	Level Dollar, open	Level Dollar, open	Level Dollar, open	Level Dollar, open	Level Dollar, open	Level Dollar, open
Remaining amortization period	30 years	1 year	30 years	30 years	30 years	30 years	30 years
Asset valuation method	Five-year average of market values	Five-year average of market values	Five-year average of market values	Five-year average of market values	20% of the difference between the expected Actuarial Value and market value is recognized each year	Five-year average of market values	Five-year average of market values
Inflation	3.08%	3.08%	3.08%	3.08%	2.50%	3.08%	3.08%
Projected salary increase							
2016							
Initial fiscal year applied through	2025	N/A^	2025	N/A^	N/A	2026	2026
Rate	2.00%	N/A^	2.95%	N/A^	Varies based on experience	2.10 - 8.98% based on age	1.65 - 4.15% based on age
Thereafter	3.00%	N/A^	3.95%	N/A^	Varies based on experience	3.10 - 9.98% based on age	2.65 - 5.15% based on age
2015 and 2014							
Through fiscal year 2021	2.50%	N/A^	3.45%	N/A^	Varies based on experience	2.60 - 9.48% based on age	2.15 - 4.40% based on age
Thereafter	3.50%	N/A^	4.45%	N/A^	Varies based on experience	3.60 - 10.48% based on age	3.15 - 5.40% based on age
Projected COLAs	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*
Investment rate of return							
2016	7.65%	2.85%	7.65%	2.85%	7.65%	7.65%	7.65%
2015	7.90%	3.80%	7.90%	3.80%	7.90%	7.90%	7.90%
2014	7.90%	4.29%	7.90%	4.29%	7.90%	7.90%	7.90%

\* Pursuant to the provisions of Chapter 78, P.L. 2011, cost of living adjustment (COLA) increases were suspended for all current and future retirees of all retirement systems.

^ This is a closed plan, therefore there are no active employees.

*Contributions:* Contributions reported on Schedule 1 include actual contributions by State and, where applicable, the local employer's contribution revenue recorded in fiscal year 2016 that is due in fiscal year 2017 and contributions to the Non-Contributory Group Insurance Premium Fund. Contributions reported on Schedule 2 represent actual contributions by the State and local employers (where applicable) made during the year, including contributions to the Non-Contributory Group Life Insurance Premium Fund.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Investment Returns - Defined Benefit Pension Plans

Annual Money-Weighted Rate of Return, Net of Investment Expense

	(Unaudited) <b>Active Pension Funds*</b>	<b>POPF</b>	<b>CPFPE</b>
Year ended June 30:			
2016	-1.15%	0.28%	0.50%
2015	4.08%	0.09%	0.34%
2014	16.79%	0.09%	0.02%

\* The annual money-weighted rate of return, net of investment expense, for the Active Pension Funds, which includes JRS, SPRS, TPAF, PFRS and PERS, is calculated on the investments held within Common Pension Funds D and E as a whole rather than by individual plan since the portfolio is managed as one pool of investments.

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Other Post-Employment Benefits Schedule of Funding Progress - Defined Benefit

(Unaudited)

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)
<b>State Health Benefit Program – State</b>						
July 1, 2015	\$	—	25,937,400,000	—%	\$ 7,660,189,014	338.6%
July 1, 2014		—	24,470,500,000	—	7,554,955,233	323.9
July 1, 2013		—	19,746,700,000	—	7,811,194,620	252.8
July 1, 2012		—	19,319,700,000	—	7,695,193,894	251.1
July 1, 2011		—	18,077,800,000	—	7,491,835,889	241.3
<b>State Health Benefit Program – Local</b>						
July 1, 2015	\$	—	16,800,900,000	—%	\$ 2,945,900,000	570.3%
July 1, 2014		—	16,408,500,000	—	3,067,600,000	534.9
July 1, 2013		—	13,804,500,000	—	3,156,000,000	437.4
July 1, 2012		—	12,378,100,000	—	2,937,000,000	421.4
July 1, 2011		—	11,127,000,000	—	2,831,000,000	393.0
<b>State Health Benefit Program – Education</b>						
July 1, 2015	\$	—	41,565,900,000	—%	\$ 12,277,410,986	338.6%
July 1, 2014		—	40,575,700,000	—	12,526,744,767	323.9
July 1, 2013		—	33,253,400,000	—	13,153,105,380	252.8
July 1, 2012		—	32,182,900,000	—	12,818,706,106	251.1
July 1, 2011		—	30,871,900,000	—	12,794,864,111	241.3

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Other Post-Employment Benefits Schedule of Funding Progress – Additional Actuarial Information  
(Unaudited)

Significant actuarial methods and assumptions used in the most recent 2015 actuarial valuation include the following:

	<u>State Health Benefit Program Funds</u>
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, open
Remaining amortization period	30 years
Actuarial assumptions:	
Interest rate	4.50% (assuming no prefunding)
Salary range	N/A
Cost-of-living adjustments	N/A
Valuation date	July 1, 2015

For pre-Medicare PPO medical benefits, this amount initially is 6.0% and decreases to a 5.0% long-term trend rate after ten years. For post-65 PPO medical benefits, the trend rate is 4.5%. For HMO medical benefits, the trend rate is initially 6.0% and decreases to a 5.0% long-term trend rate after ten years. For prescription drug benefits, the initial trend rate is 11.0% decreased to a 5.0% long-term trend rate after nine years. For the Medicare Part B reimbursement, the trend rate is 5.0%. This reflects the known underlying cost of the Part B premium.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Other Post-Employment Benefits Schedule of Employer Contributions - Defined Benefit

(Unaudited)

	<b>Annual required contribution<sup>(1)</sup></b>	<b>Employer contributions</b>	<b>Percentage contributed</b>
<b>State Health Benefit Program – State</b>			
Year ended June 30, 2016	\$ 2,506,300,000	696,519,227	27.8%
Year ended June 30, 2015	2,396,900,000	613,079,000	25.6
Year ended June 30, 2014	1,935,100,000	569,367,000	29.4
Year ended June 30, 2013	1,911,400,000	562,698,000	29.4
Year ended June 30, 2012	1,802,200,000	505,481,000	28.0
<b>State Health Benefit Program – Local</b>			
Year ended June 30, 2016	\$ 1,566,000,000	439,100,000	28.0%
Year ended June 30, 2015	1,535,100,000	396,900,000	25.9
Year ended June 30, 2014	1,324,400,000	369,600,000	27.9
Year ended June 30, 2013	1,200,700,000	322,300,000	26.8
Year ended June 30, 2012	1,098,200,000	274,800,000	25.0
<b>State Health Benefit Program – Education</b>			
Year ended June 30, 2016	\$ 4,095,900,000	1,138,280,773	27.8%
Year ended June 30, 2015	4,034,800,000	1,032,021,000	25.6
Year ended June 30, 2014	3,346,800,000	984,733,000	29.4
Year ended June 30, 2013	3,238,900,000	953,502,000	29.4
Year ended June 30, 2012	3,115,800,000	873,919,000	28.0

<sup>(1)</sup> The annual required contribution reflects a 30-year, 4.0% annual increasing amortization of the unfunded actuarial accrued liability. Based on expected benefit payments plus retiree drug subsidy for the applicable fiscal year end.

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Administrative Expenses

Year ended June 30, 2016

	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPF</u>	<u>TPAF</u>	<u>PFRS</u>	<u>PERS</u>	<u>NJSEDCP</u>	<u>Total</u>
Personnel services:									
Salaries and wages	\$ 86,267	1,719	123,043	1,738	5,020,548	1,363,553	8,398,909	100,389	15,096,166
Employee benefits	39,352	805	57,581	814	2,349,494	698,583	3,930,485	61,394	7,138,508
Total personnel services	125,619	2,524	180,624	2,552	7,370,042	2,062,136	12,329,394	161,783	22,234,674
Professional services:									
Actuarial services	8,268	695	49,734	703	207,299	690,600	750,000	—	1,707,299
Data processing	15,157	487	11,862	493	1,422,489	384,090	2,379,692	13,261	4,227,531
Information systems	8,465	718	17,529	1,998	2,180,389	257,065	3,151,635	—	5,617,799
Other professional (1)	3,035	255	18,481	258	745,734	256,572	1,248,688	—	2,273,023
Medical reviews (exams/hearings)	—	—	21,700	—	358,734	472,545	1,023,255	—	1,876,234
Elections	—	—	—	—	—	24,889	20,000	—	44,889
Internal audit and legal	2,101	177	12,639	179	515,703	175,500	862,723	36	1,569,058
Total professional services	37,026	2,332	131,945	3,631	5,430,348	2,261,261	9,435,993	13,297	17,315,833
Communication:									
Travel	7	1	41	1	4,271	4,134	7,115	—	15,570
Telephone	353	30	2,125	30	86,715	29,510	145,065	2,800	266,628
Postage	1,600	134	9,622	136	392,608	133,609	656,796	1,000	1,195,505
Motor pool	12	1	73	1	2,994	1,019	5,009	—	9,109
Printing and office	450	38	2,705	38	110,369	37,560	184,637	—	335,797
Total communication	2,422	204	14,566	206	596,957	205,832	998,622	3,800	1,822,609
Miscellaneous:									
Office space	2,868	241	17,253	244	703,978	239,572	1,177,691	—	2,141,847
Maintenance	16	1	94	1	3,849	1,310	6,439	—	11,710
Equipment	97	8	586	8	23,894	8,131	39,973	—	72,697
Other services and charges	16	2	98	1	3,985	1,356	6,667	12,000	24,125
Total miscellaneous	2,997	252	18,031	254	735,706	250,369	1,230,770	12,000	2,250,379
Total administrative expenses	\$ 168,064	5,312	345,166	6,643	14,133,053	4,779,598	23,994,779	190,880	43,623,495

(1) Portion of consulting

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Schedule of Investment Expenses

Year ended June 30, 2016

	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPP</u>	<u>TPAF</u>	<u>PFRS</u>	<u>PERS</u>	<u>NJSEDCP</u>	<u>Total</u>
Investment expense \$	21,872	2,032	132,734	2,549	5,434,567	1,837,898	9,226,688	247,860	16,906,200

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Schedule of Expenses for Consultants

Year ended June 30, 2016

	<u>JRS</u>	<u>POPF</u>	<u>SPRS</u>	<u>CPFPF</u>	<u>TPAF</u>	<u>PFRS</u>	<u>PERS</u>	<u>Total</u>
Actuarial:								
Buck Consultants	\$ 8,268	695	49,734	703	—	690,600	750,000	1,500,000
Milliman	—	—	—	—	207,299	—	—	207,299
Medical reviews (exams/hearings)	—	—	21,700	—	358,734	472,545	1,023,255	1,876,234
Board elections:								
Global support	—	—	—	—	—	24,889	20,000	44,889
Total expenses for consultants	<u>\$ 8,268</u>	<u>695</u>	<u>71,434</u>	<u>703</u>	<u>566,033</u>	<u>1,188,034</u>	<u>1,793,255</u>	<u>3,628,422</u>

See accompanying independent auditors' report.



**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Fiduciary Net Position  
Fiduciary Funds

June 30, 2016

	<u>Pension Trust Funds</u>	<u>Other Postemployment Benefit Plans</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 8,444,812	1,906,988	10,351,800
<b>Receivables:</b>			
<b>Contributions:</b>			
Members	195,809,464	3,152,451	198,961,915
Employers	2,049,067,334	191,958,452	2,241,025,786
Accrued interest and dividends	4,255,408	—	4,255,408
Other	18,167,012	3,304,005	21,471,017
Total receivables	<u>2,267,299,218</u>	<u>198,414,908</u>	<u>2,465,714,126</u>
<b>Investments, at fair value:</b>			
Cash Management Fund	1,040,234,254	688,935,591	1,729,169,845
Common Pension Fund D	45,840,206,401	—	45,840,206,401
Common Pension Fund E	25,062,510,418	—	25,062,510,418
Domestic equities	678,024,900	—	678,024,900
Fixed income mutual funds	394,909,679	—	394,909,679
Equity mutual funds	2,687,843,042	—	2,687,843,042
Total investments	<u>75,703,728,694</u>	<u>688,935,591</u>	<u>76,392,664,285</u>
Securities lending collateral	1,298,508,410	—	1,298,508,410
Members' loans and mortgages	2,242,910,998	—	2,242,910,998
Total assets	<u>81,520,892,132</u>	<u>889,257,487</u>	<u>82,410,149,619</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	178,894,347	791,551,177	970,445,524
Retirement benefits payable	866,831,486	—	866,831,486
Noncontributory group life insurance premiums payable	29,272,362	—	29,272,362
Administrative expense payable	15,544,997	2,582,376	18,127,373
Securities lending collateral and rebates payable	1,296,943,638	—	1,296,943,638
Total liabilities	<u>2,387,486,830</u>	<u>794,133,553</u>	<u>3,181,620,383</u>
<b>Net position:</b>			
Restricted for pension and other postemployment benefits	<u>\$ 79,133,405,302</u>	<u>95,123,934</u>	<u>79,228,529,236</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Changes in Fiduciary Net Position  
Fiduciary Funds

Year ended June 30, 2016

	<b>Pension Trust Funds</b>	<b>Other Postemployment Benefit Plans</b>	<b>Total</b>
Additions:			
Contributions:			
Members	\$ 2,189,872,156	538,527,119	2,728,399,275
Employers	2,231,713,112	6,139,366,463	8,371,079,575
Nonemployer	860,429,467	—	860,429,467
Employer specific	15,215,218	—	15,215,218
Total contributions	<u>5,297,229,953</u>	<u>6,677,893,582</u>	<u>11,975,123,535</u>
Investment (loss) income:			
Net (decrease) increase in fair value of investments	(2,244,405,037)	142,248	(2,244,262,789)
Interest	1,594,956,586	2,657,902	1,597,614,488
Dividends	14,889,882	—	14,889,882
	<u>(634,558,569)</u>	<u>2,800,150</u>	<u>(631,758,419)</u>
Less investment expense	16,906,200	—	16,906,200
Net investment (loss) income	<u>(651,464,769)</u>	<u>2,800,150</u>	<u>(648,664,619)</u>
Total additions	<u>4,645,765,184</u>	<u>6,680,693,732</u>	<u>11,326,458,916</u>
Deductions:			
Benefits	10,377,992,493	6,892,406,433	17,270,398,926
Refunds of contributions	202,432,865	—	202,432,865
Administrative and miscellaneous expenses	42,052,396	10,501,476	52,553,872
Total deductions	<u>10,622,477,754</u>	<u>6,902,907,909</u>	<u>17,525,385,663</u>
Change in net position	<u>(5,976,712,570)</u>	<u>(222,214,177)</u>	<u>(6,198,926,747)</u>
Net position restricted for pension and other postemployment benefits:			
Beginning of year	<u>85,110,117,872</u>	<u>317,338,111</u>	<u>85,427,455,983</u>
End of year	<u>\$ 79,133,405,302</u>	<u>95,123,934</u>	<u>79,228,529,236</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Fiduciary Net Position Information  
Fiduciary Funds – Select Pension Trust Funds

June 30, 2016

	<b>Judicial Retirement System</b>	<b>Prison Officers' Pension Fund</b>	<b>State Police Retirement System</b>	<b>Consolidated Police and Firemen's Pension Fund</b>	<b>Teachers' Pension and Annuity Fund</b>	<b>Police and Firemen's Retirement System</b>	<b>Public Employees' Retirement System</b>	<b>Total</b>
<b>Assets:</b>								
Cash and cash equivalents	\$ 223,043	206,780	1,587,746	97,183	2,414,775	1,609,548	2,143,605	8,282,680
<b>Receivables:</b>								
Contributions:								
Members	350,324	—	1,236,348	—	82,176,124	49,897,205	61,755,437	195,415,438
Employers	149,725	—	158,804	—	33,077,039	992,349,260	1,023,306,306	2,049,041,134
Accrued interest and dividends	390	10	2,128	16	33,129	3,304,248	28,203	3,368,124
Other	888,102	49,875	271,237	288,358	2,551,217	3,478,523	8,899,751	16,427,063
Total receivables	<u>1,388,541</u>	<u>49,885</u>	<u>1,668,517</u>	<u>288,374</u>	<u>117,837,509</u>	<u>1,049,029,236</u>	<u>1,093,989,697</u>	<u>2,264,251,759</u>
<b>Investments, at fair value:</b>								
Cash Management Fund	8,327,661	5,958,633	31,939,826	1,683,801	394,124,066	244,143,777	330,384,293	1,016,562,057
Common Pension Fund D	115,510,746	—	1,075,987,507	—	14,568,762,228	13,864,778,564	16,215,167,356	45,840,206,401
Common Pension Fund E	58,519,326	—	585,745,952	—	7,797,708,833	7,693,273,548	8,927,262,759	25,062,510,418
Total investments	<u>182,357,733</u>	<u>5,958,633</u>	<u>1,693,673,285</u>	<u>1,683,801</u>	<u>22,760,595,127</u>	<u>21,802,195,889</u>	<u>25,472,814,408</u>	<u>71,919,278,876</u>
Securities lending collateral	3,272,055	—	30,479,331	—	412,687,066	392,745,430	459,324,528	1,298,508,410
Members' loans and mortgages	775,888	—	16,096,136	—	271,634,977	1,337,601,102	616,802,895	2,242,910,998
Total assets	<u>188,017,260</u>	<u>6,215,298</u>	<u>1,743,505,015</u>	<u>2,069,358</u>	<u>23,565,169,454</u>	<u>24,583,181,205</u>	<u>27,645,075,133</u>	<u>77,733,232,723</u>
<b>Liabilities:</b>								
Accounts payable and accrued expenses	—	683	75,978	—	72,431,070	5,450,197	99,421,414	177,379,342
Retirement benefits payable	4,551,435	101,483	17,741,886	172,051	349,959,596	193,136,024	300,889,814	866,552,289
Noncontributory group life insurance premiums payable	149,725	—	158,804	—	7,663,781	5,884,168	15,327,645	29,184,123
Administrative expense payable	48,168	1,899	123,633	2,379	5,062,284	1,712,001	8,594,633	15,544,997
Securities lending collateral and rebates payable	3,268,112	—	30,442,602	—	412,189,756	392,272,151	458,771,017	1,296,943,638
Total liabilities	<u>8,017,440</u>	<u>104,065</u>	<u>48,542,903</u>	<u>174,430</u>	<u>847,306,487</u>	<u>598,454,541</u>	<u>883,004,523</u>	<u>2,385,604,389</u>
Net position restricted for pensions	<u>\$ 179,999,820</u>	<u>6,111,233</u>	<u>1,694,962,112</u>	<u>1,894,928</u>	<u>22,717,862,967</u>	<u>23,984,726,664</u>	<u>26,762,070,610</u>	<u>75,347,628,334</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes In Fiduciary Net Position Information  
Fiduciary Funds – Select Pension Trust Funds

Year ended June 30, 2016

	<u>Judicial Retirement System</u>	<u>Prison Officers' Pension Fund</u>	<u>State Police Retirement System</u>	<u>Consolidated Police and Firemen's Pension Fund</u>	<u>Teachers' Pension and Annuity Fund</u>	<u>Police and Firemen's Retirement System</u>	<u>Public Employees' Retirement System</u>	<u>Total</u>
Additions:								
Contributions:								
Members:								
State	\$ 9,271,869	—	22,818,295	—	761,711,695	50,916,706	320,331,293	1,165,049,858
Local	—	—	—	—	—	337,764,702	500,974,494	838,739,196
Employers:								
State	14,794,774	—	37,435,541	148,000	1,105,810	84,788,178	385,039,628	523,311,931
Local	—	—	—	—	—	815,245,389	888,385,714	1,703,631,103
Nonemployer	—	—	—	—	798,963,467	61,466,000	—	860,429,467
Employer specific	726,284	634,217	54,000	1,196,017	1,807,662	6,848,771	3,926,053	15,193,004
Total contributions	<u>24,792,927</u>	<u>634,217</u>	<u>60,307,836</u>	<u>1,344,017</u>	<u>1,563,588,634</u>	<u>1,357,029,746</u>	<u>2,098,657,182</u>	<u>5,106,354,559</u>
Investment (loss) income:								
Net (decrease) increase in fair value of investments	(6,342,413)	1,295	(53,947,388)	346	(747,095,626)	(648,865,408)	(799,550,199)	(2,255,799,393)
Interest	3,642,336	18,804	34,796,068	13,059	484,845,840	500,010,147	571,561,244	1,594,887,498
	<u>(2,700,077)</u>	<u>20,099</u>	<u>(19,151,320)</u>	<u>13,405</u>	<u>(262,249,786)</u>	<u>(148,855,261)</u>	<u>(227,988,955)</u>	<u>(660,911,895)</u>
Less investment expense	21,872	2,032	132,734	2,549	5,434,567	1,837,898	9,226,688	16,658,340
Net investment (loss) income	<u>(2,721,949)</u>	<u>18,067</u>	<u>(19,284,054)</u>	<u>10,856</u>	<u>(267,684,353)</u>	<u>(150,693,159)</u>	<u>(237,215,643)</u>	<u>(677,570,235)</u>
Total additions	<u>22,070,978</u>	<u>652,284</u>	<u>41,023,782</u>	<u>1,354,873</u>	<u>1,295,904,281</u>	<u>1,206,336,587</u>	<u>1,861,441,539</u>	<u>4,428,784,324</u>
Deductions:								
Benefits:								
Benefit expense - retirement allowances	53,842,747	1,240,307	211,451,186	1,881,252	4,075,562,467	2,277,762,983	3,416,130,678	10,037,871,620
Noncontributory group insurance expense	843,774	—	1,855,541	—	35,580,277	38,372,031	77,192,795	153,844,418
Refunds of contributions	—	—	129,423	—	57,928,018	8,040,939	136,328,442	202,426,822
Administrative and miscellaneous expenses	168,008	5,312	334,630	6,643	13,768,112	4,292,891	23,285,920	41,861,516
Total deductions	<u>54,854,529</u>	<u>1,245,619</u>	<u>213,770,780</u>	<u>1,887,895</u>	<u>4,182,838,874</u>	<u>2,328,468,844</u>	<u>3,652,937,835</u>	<u>10,436,004,376</u>
Change in net position	<u>(32,783,551)</u>	<u>(593,335)</u>	<u>(172,746,998)</u>	<u>(533,022)</u>	<u>(2,886,934,593)</u>	<u>(1,122,132,257)</u>	<u>(1,791,496,296)</u>	<u>(6,007,220,052)</u>
Net position restricted for pensions:								
Beginning of year	212,783,371	6,704,568	1,867,709,110	2,427,950	25,604,797,560	25,106,858,921	28,553,566,906	81,354,848,386
End of year	<u>\$ 179,999,820</u>	<u>6,111,233</u>	<u>1,694,962,112</u>	<u>1,894,928</u>	<u>22,717,862,967</u>	<u>23,984,726,664</u>	<u>26,762,070,610</u>	<u>75,347,628,334</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Fiduciary Net Position Information – Fiduciary Funds –  
State Health Benefit Program Fund – State

June 30, 2016

	<b>Health Benefit Program Fund State</b>	<b>Prescription Drug Program Fund State</b>	<b>Total State Health Benefit Program Fund State</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 793,060	24,373	817,433
<b>Receivables:</b>			
<b>Contributions:</b>			
Members	758,090	455,092	1,213,182
Employers	27,860,082	(1,871)	27,858,211
Other	66,617	432,262	498,879
<b>Total receivables</b>	<b>28,684,789</b>	<b>885,483</b>	<b>29,570,272</b>
<b>Investments, at fair value:</b>			
Cash Management Fund	10,859,513	1,029,763	11,889,276
<b>Total investments</b>	<b>10,859,513</b>	<b>1,029,763</b>	<b>11,889,276</b>
<b>Total assets</b>	<b>40,337,362</b>	<b>1,939,619</b>	<b>42,276,981</b>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	244,839,146	41,080,845	285,919,991
Administrative expense payable	968,391	—	968,391
<b>Total liabilities</b>	<b>245,807,537</b>	<b>41,080,845</b>	<b>286,888,382</b>
<b>Net position:</b>			
Restricted for other postemployment benefits	\$ (205,470,175)	(39,141,226)	(244,611,401)
	<b>(205,470,175)</b>	<b>(39,141,226)</b>	<b>(244,611,401)</b>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds –  
State Health Benefit Program Fund – State

Year ended June 30, 2016

	<b>Health Benefit Program Fund State</b>	<b>Prescription Drug Program Fund State</b>	<b>Total State Health Benefit Program Fund State</b>
<b>Additions:</b>			
<b>Contributions:</b>			
Members	\$ 332,228,523	99,045,767	431,274,290
Employers	1,386,855,904	611,695,921	1,998,551,825
Total contributions	<u>1,719,084,427</u>	<u>710,741,688</u>	<u>2,429,826,115</u>
<b>Investment income:</b>			
Net decrease in fair value of investments	(2,012)	(4,944)	(6,956)
Interest	244,289	82,844	327,133
Net investment income	<u>242,277</u>	<u>77,900</u>	<u>320,177</u>
Total additions	<u>1,719,326,704</u>	<u>710,819,588</u>	<u>2,430,146,292</u>
<b>Deductions:</b>			
Benefits	1,802,871,176	746,330,856	2,549,202,032
Administrative expenses	3,938,054	—	3,938,054
Total deductions	<u>1,806,809,230</u>	<u>746,330,856</u>	<u>2,553,140,086</u>
Change in net position	(87,482,526)	(35,511,268)	(122,993,794)
<b>Net position restricted for other postemployment benefits:</b>			
Beginning of year	<u>(117,987,649)</u>	<u>(3,629,958)</u>	<u>(121,617,607)</u>
End of year	<u>\$ (205,470,175)</u>	<u>(39,141,226)</u>	<u>(244,611,401)</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Fiduciary Net Position Information – Fiduciary Funds –  
State Health Benefit Program Fund – Local

June 30, 2016

	<b>Health Benefit Program Fund Local</b>	<b>Prescription Drug Program Fund Local</b>	<b>Total State Health Benefit Program Fund Local</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assets:			
Cash and cash equivalents	\$ 305,646	10,277	315,923
Receivables:			
Contributions:			
Members	532,624	399,323	931,947
Employers	93,656,371	15,416,961	109,073,332
Other	52,318	1,851,166	1,903,484
Total receivables	<u>94,241,313</u>	<u>17,667,450</u>	<u>111,908,763</u>
Investments, at fair value:			
Cash Management Fund	<u>312,878,273</u>	<u>8,178,918</u>	<u>321,057,191</u>
Total investments	<u>312,878,273</u>	<u>8,178,918</u>	<u>321,057,191</u>
Total assets	<u>407,425,232</u>	<u>25,856,645</u>	<u>433,281,877</u>
Liabilities:			
Accounts payable and accrued expenses	146,406,869	19,502,000	165,908,869
Administrative expense payable	<u>472,575</u>	<u>—</u>	<u>472,575</u>
Total liabilities	<u>146,879,444</u>	<u>19,502,000</u>	<u>166,381,444</u>
Net position:			
Restricted for other postemployment benefits	<u>\$ 260,545,788</u>	<u>6,354,645</u>	<u>266,900,433</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds –  
State Health Benefit Program Fund – Local

Year ended June 30, 2016

	<b>Health Benefit Program Fund Local</b>	<b>Prescription Drug Program Fund Local</b>	<b>Total State Health Benefit Program Fund Local</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Additions:</b>			
Contributions:			
Members	\$ 34,080,441	18,602,370	52,682,811
Employers	1,041,627,610	274,568,352	1,316,195,962
Total contributions	<u>1,075,708,051</u>	<u>293,170,722</u>	<u>1,368,878,773</u>
Investment income:			
Net increase (decrease) in fair value of investments	71,664	(659)	71,005
Interest	1,086,731	75,400	1,162,131
Net investment income	<u>1,158,395</u>	<u>74,741</u>	<u>1,233,136</u>
Total additions	<u>1,076,866,446</u>	<u>293,245,463</u>	<u>1,370,111,909</u>
<b>Deductions:</b>			
Benefits	1,029,578,781	365,797,859	1,395,376,640
Administrative expenses	1,921,770	—	1,921,770
Total deductions	<u>1,031,500,551</u>	<u>365,797,859</u>	<u>1,397,298,410</u>
Changes in net position	45,365,895	(72,552,396)	(27,186,501)
<b>Net position restricted for other postemployment benefits:</b>			
Beginning of year	<u>215,179,893</u>	<u>78,907,041</u>	<u>294,086,934</u>
End of year	<u>\$ 260,545,788</u>	<u>6,354,645</u>	<u>266,900,433</u>

See accompanying independent auditors' report.



**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Fiduciary Net Position Information – Fiduciary Funds –  
State Health Benefit Program Fund – Education

June 30, 2016

	<b>Health Benefit Program Fund Education</b>	<b>Prescription Drug Program Fund Education</b>	<b>Total State Health Benefit Program Fund Education</b>
Assets:			
Cash and cash equivalents	\$ 769,587	4,045	773,632
Receivables:			
Contributions:			
Members	396,276	611,046	1,007,322
Employers	49,957,830	5,069,079	55,026,909
Other	901,642	—	901,642
Total receivables	<u>51,255,748</u>	<u>5,680,125</u>	<u>56,935,873</u>
Investments, at fair value:			
Cash Management Fund	<u>354,561,481</u>	<u>1,427,643</u>	<u>355,989,124</u>
Total investments	<u>354,561,481</u>	<u>1,427,643</u>	<u>355,989,124</u>
Total assets	<u>406,586,816</u>	<u>7,111,813</u>	<u>413,698,629</u>
Liabilities:			
Accounts payable and accrued expenses	296,378,273	43,344,044	339,722,317
Administrative expense payable	<u>1,141,410</u>	—	<u>1,141,410</u>
Total liabilities	<u>297,519,683</u>	<u>43,344,044</u>	<u>340,863,727</u>
Net position:			
Restricted for other postemployment benefits	<u>\$ 109,067,133</u>	<u>(36,232,231)</u>	<u>72,834,902</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds –  
State Health Benefit Program Fund – Education

Year ended June 30, 2016

	<b>Health Benefit Program Fund Education</b>	<b>Prescription Drug Program Fund Education</b>	<b>Total State Health Benefit Program Fund Education</b>
<b>Additions:</b>			
<b>Contributions:</b>			
Members	\$ 30,184,313	24,385,705	54,570,018
Employers	2,195,399,775	629,218,901	2,824,618,676
Total contributions	2,225,584,088	653,604,606	2,879,188,694
<b>Investment income:</b>			
Net increase (decrease) in fair value of investments	79,188	(989)	78,199
Interest	1,052,646	115,992	1,168,638
Net investment income	1,131,834	115,003	1,246,837
Total additions	2,226,715,922	653,719,609	2,880,435,531
<b>Deductions:</b>			
Benefits	2,240,825,698	707,002,063	2,947,827,761
Administrative expenses	4,641,652	—	4,641,652
Total deductions	2,245,467,350	707,002,063	2,952,469,413
Change in net position	(18,751,428)	(53,282,454)	(72,033,882)
<b>Net position restricted for other postemployment benefits:</b>			
Beginning of year	127,818,561	17,050,223	144,868,784
End of year	\$ 109,067,133	(36,232,231)	72,834,902

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**  
Combining Schedule of Balance Sheet Information  
Fiduciary Funds – Agency Funds  
June 30, 2016

	<u>Alternate Benefit Program Fund</u>	<u>Pension Adjustment Fund</u>	<u>Dental Expense Program Fund</u>	<u>Total Agency Funds</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,050,138	1,737,674	35,083	2,822,895
<b>Receivables:</b>				
State related employer contributions	—	316,085	—	316,085
Other	35,077,677	683	839,880	35,918,240
Total receivables	<u>35,077,677</u>	<u>316,768</u>	<u>839,880</u>	<u>36,234,325</u>
<b>Investments, at fair value:</b>				
Cash Management Fund	712,038	525,341	40,175,944	41,413,323
Total investments	<u>712,038</u>	<u>525,341</u>	<u>40,175,944</u>	<u>41,413,323</u>
Total assets	<u>\$ 36,839,853</u>	<u>2,579,783</u>	<u>41,050,907</u>	<u>80,470,543</u>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 36,833,743	—	41,050,907	77,884,650
Assets held for local contributing employers	—	2,226,939	—	2,226,939
Pension adjustment payroll payable	—	140,204	—	140,204
Due to State of New Jersey	6,110	23,980	—	30,090
Due to other funds	—	188,660	—	188,660
Total liabilities	<u>\$ 36,839,853</u>	<u>2,579,783</u>	<u>41,050,907</u>	<u>80,470,543</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes in Fiduciary Net Position Information  
Fiduciary Funds – Agency Funds

Year ended June 30, 2016

	<u>Alternate Benefit Program Fund</u>	<u>Pension Adjustment Fund</u>	<u>Dental Expense Program Fund</u>	<u>Total Agency Funds</u>
Additions:				
Contributions:				
Members	\$ 797,153	—	97,209,860	98,007,013
Employers	186,772,897	1,747,289	37,492,926	226,013,112
Total contributions	<u>187,570,050</u>	<u>1,747,289</u>	<u>134,702,786</u>	<u>324,020,125</u>
Investment income:				
Net increase in fair value of investments	129	33	8,935	9,097
Interest	5,806	5,383	137,430	148,619
Total investment income	<u>5,935</u>	<u>5,416</u>	<u>146,365</u>	<u>157,716</u>
Total additions	<u>187,575,985</u>	<u>1,752,705</u>	<u>134,849,151</u>	<u>324,177,841</u>
Deductions:				
Benefits	187,568,965	1,894,633	136,914,050	326,377,648
Refunds of contributions	7,020	(141,928)	(2,064,899)	(2,199,807)
Total deductions	<u>187,575,985</u>	<u>1,752,705</u>	<u>134,849,151</u>	<u>324,177,841</u>
Change in net position	—	—	—	—
Net position – beginning of year	—	—	—	—
Net position – end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Balance Sheet Information  
Agency Fund – Dental Expense Program Fund

June 30, 2016

	State	Local	Total Agency Fund – Dental Expense Program Fund
<b>Assets:</b>			
Cash and cash equivalents	\$ 16,075	19,008	35,083
<b>Receivables:</b>			
Other	836,832	3,048	839,880
Total receivables	836,832	3,048	839,880
<b>Investments, at fair value:</b>			
Cash Management Fund	29,809,733	10,366,211	40,175,944
Total investments	29,809,733	10,366,211	40,175,944
Total assets	\$ 30,662,640	10,388,267	41,050,907
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 30,662,640	10,388,267	41,050,907
Cash overdraft	—	—	—
Total liabilities	\$ 30,662,640	10,388,267	41,050,907

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes in Fiduciary Net Position Information  
Agency Fund – Dental Expense Program Fund

Year ended June 30, 2016

	<u>State</u>	<u>Local</u>	<u>Total Agency Fund – Dental Expense Program Fund</u>
Additions:			
Contributions:			
Members	\$ 53,202,375	44,007,485	97,209,860
Employers	<u>32,344,320</u>	<u>5,148,606</u>	<u>37,492,926</u>
Total contributions	<u>85,546,695</u>	<u>49,156,091</u>	<u>134,702,786</u>
Investment income:			
Net increase in fair value of investments	8,488	447	8,935
Interest	<u>91,913</u>	<u>45,517</u>	<u>137,430</u>
Total investment income	<u>100,401</u>	<u>45,964</u>	<u>146,365</u>
Total additions	<u>85,647,096</u>	<u>49,202,055</u>	<u>134,849,151</u>
Deductions:			
Benefits	85,773,547	51,140,503	136,914,050
Refunds of contributions	<u>(126,451)</u>	<u>(1,938,448)</u>	<u>(2,064,899)</u>
Total deductions	<u>85,647,096</u>	<u>49,202,055</u>	<u>134,849,151</u>
Change in net position	—	—	—
Net position – beginning of year	<u>—</u>	<u>—</u>	<u>—</u>
Net position – end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Changes in Assets and Liabilities Information  
Agency Fund – Alternate Benefit Program Fund

June 30, 2016

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
Assets:				
Cash and cash equivalents	\$ 528,538	165,089,956	164,568,356	1,050,138
Receivables:				
Other	34,362,245	35,077,677	34,362,245	35,077,677
Investments, at fair value:				
Cash Management Fund	1,171,987	190,208,339	190,668,288	712,038
Total assets	<u>\$ 36,062,770</u>	<u>390,375,972</u>	<u>389,598,889</u>	<u>36,839,853</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 35,887,485	37,461,670	36,515,412	36,833,743
Due to State of New Jersey	175,285	6,110	175,285	6,110
Total liabilities	<u>\$ 36,062,770</u>	<u>37,467,780</u>	<u>36,690,697</u>	<u>36,839,853</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS**

Schedule of Changes in Assets and Liabilities Information  
Agency Fund – Pension Adjustment Fund

June 30, 2016

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 560,467	1,186,389	9,182	1,737,674
<b>Receivables:</b>				
State related employer contributions	426,251	1,386,409	1,496,575	316,085
Other	641	11,021	10,979	683
<b>Investments, at fair value:</b>				
Cash Management Fund	<u>1,838,470</u>	<u>696,801</u>	<u>2,009,930</u>	<u>525,341</u>
Total assets	<u>\$ 2,825,829</u>	<u>3,280,620</u>	<u>3,526,666</u>	<u>2,579,783</u>
<b>Liabilities:</b>				
Assets held for local contributing employers	\$ 2,350,663	152	123,876	2,226,939
Pension adjustment payroll payable	175,351	1,873,978	1,909,125	140,204
Due to State of New Jersey	42,185	23,980	42,185	23,980
Due to other funds	<u>257,630</u>	<u>1,234,039</u>	<u>1,303,009</u>	<u>188,660</u>
Total liabilities	<u>\$ 2,825,829</u>	<u>3,132,149</u>	<u>3,378,195</u>	<u>2,579,783</u>

See accompanying independent auditors' report.



**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Changes in Assets and Liabilities Information  
Agency Fund – Dental Expense Program Fund – Total

June 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Assets:				
Cash and cash equivalents	\$ 11,207	37,005,871	36,981,995	35,083
Receivables:				
Other	1,424,253	134,150,985	134,735,358	839,880
Investments, at fair value:				
Cash Management Fund	41,039,074	215,227,679	216,090,809	40,175,944
Total assets	<u>\$ 42,474,534</u>	<u>386,384,535</u>	<u>387,808,162</u>	<u>41,050,907</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 42,148,134	42,824,356	43,921,583	41,050,907
Cash overdraft	326,400	—	326,400	—
Total liabilities	<u>\$ 42,474,534</u>	<u>42,824,356</u>	<u>43,921,583</u>	<u>41,050,907</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Changes in Assets and Liabilities Information  
Agency Fund – Dental Expense Program Fund – State

June 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Assets:				
Cash and cash equivalents	\$ —	29,163,406	29,147,331	16,075
Receivables:				
Other	1,391,268	86,027,234	86,581,670	836,832
Investments, at fair value:				
Cash Management Fund	<u>29,387,552</u>	<u>156,644,635</u>	<u>156,222,454</u>	<u>29,809,733</u>
Total assets	<u>\$ 30,778,820</u>	<u>271,835,275</u>	<u>271,951,455</u>	<u>30,662,640</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 30,452,420	31,461,797	31,251,577	30,662,640
Cash overdraft	<u>326,400</u>	<u>—</u>	<u>326,400</u>	<u>—</u>
Total liabilities	<u>\$ 30,778,820</u>	<u>31,461,797</u>	<u>31,251,577</u>	<u>30,662,640</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Schedule of Changes in Assets and Liabilities Information  
Agency Fund – Dental Expense Program Fund – Local

June 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Assets:				
Cash and cash equivalents	\$ 11,207	7,842,465	7,834,664	19,008
Receivables:				
Other	32,985	48,123,751	48,153,688	3,048
Investments, at fair value:				
Cash Management Fund	<u>11,651,522</u>	<u>58,583,044</u>	<u>59,868,355</u>	<u>10,366,211</u>
Total assets	<u>\$ 11,695,714</u>	<u>114,549,260</u>	<u>115,856,707</u>	<u>10,388,267</u>
Liabilities:				
Accounts payable and accrued expenses	<u>\$ 11,695,714</u>	<u>11,362,559</u>	<u>12,670,006</u>	<u>10,388,267</u>
Total liabilities	<u>\$ 11,695,714</u>	<u>11,362,559</u>	<u>12,670,006</u>	<u>10,388,267</u>

See accompanying independent auditors' report.