

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

A DEPARTMENT OF THE STATE OF NEW JERSEY

52nd COMPREHENSIVE ANNUAL FINANCIAL REPORT *For the Fiscal Year Ended June 30, 2007*

Jon S. Corzine
Governor

R. David Rousseau
State Treasurer

Frederick J. Beaver
Director



STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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Programs administered by the

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

- PERS** Public Employees' Retirement System
- TPAF** Teachers' Pension and Annuity Fund
- PFRS** Police and Firemen's Retirement System
- SPRS** State Police Retirement System
- JRS** Judicial Retirement System
- ABP** Alternate Benefit Program
- POPF** Prison Officers' Pension Fund
- CPFPF** Consolidated Police and Firemen's Pension Fund
- NJSEDCP** NJ State Employees Deferred Compensation Plan
- SACT** Supplemental Annuity Collective Trust
- ACTS** Additional Contributions Tax-Sheltered Program
- CPF** Central Pension Fund
- PAF** Pension Adjustment Fund
- UCTDSE** Unemployment Compensation and Temporary Disability for State Employees
- SHBP** State Health Benefits Program
- PDP** Prescription Drug Plan
- EDP** Employee Dental Plans
- Tax\$ave** Premium Option Plan, Unreimbursed Medical Expense Plan Flexible Account Plan, and Dependent Care Spending Account Plan
- Commuter Tax\$ave** State Employees Commuter Tax Savings Program
- LTC** State Employees Long Term Care Insurance Plan

INDEPENDENT AUDITOR

KPMG LLP

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ACTUARIAL REPORTS

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MILLIMAN

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

New Jersey Division of Pension & Benefits

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

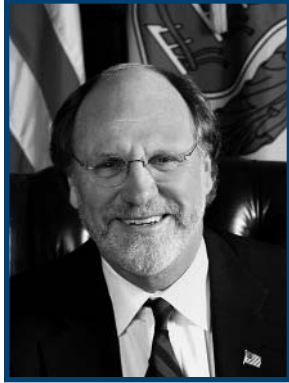


Charles S. Cox

President

Jeffrey R. Emmer

Executive Director



JON S. CORZINE
Governor



R. DAVID ROUSSEAU
State Treasurer



FREDERICK J. BEAVER
*Director, Division of
Pensions and Benefits*



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LETTER OF TRANSMITTAL

April 7, 2008

To the Honorable

Jon S. Corzine, Governor
R. David Rousseau, State Treasurer
Members of the Legislature
Members of the Boards of Trustees

On behalf of the Division of Pensions and Benefits, I am pleased to submit the 51st Comprehensive Annual Financial Report (CAFR) of the New Jersey State-administered retirement systems and related benefit programs for the fiscal year ended June 30, 2007. The management of the Division of Pensions and Benefits (the Division) is responsible for the accuracy of the data and the completeness and fairness of the presentation. To the best of my knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner that fairly represents the financial position and results of the Division's operations.

STRUCTURE OF THE CAFR

This comprehensive annual financial report is divided into five sections:

- The Introductory Section, which contains this letter of transmittal, the organization of the Division and Boards of Trustees, an overview of legislation enacted during the year covered by the CAFR, and general information regarding the operations of the Division.
- The Financial Section, which contains the report of the Independent Auditors and the financial statements, schedules and supplementary financial information regarding funds administered by the Division.
- The Investment Section, which contains information pertaining to the management of the investment of the Pension Trust Funds.
- The Actuarial Section, which contains the funds' Actuary Certification letters and information regarding the actuarial assumptions and methods used to determine the contribution requirements of the Pension Trust Funds.
- The Statistical Section, which contains general statistical information regarding the programs administered by the Division.

THE REPORTING ENTITY

The Division was established in 1955 as the Division of Pensions to provide

LETTER OF TRANSMITTAL

all administration of the state pension funds except investments. The Division changed its name to the Division of Pensions and Benefits in 1992 to more accurately reflect its roles and responsibilities beyond the realm of pensions. Currently, the Division administers one of the largest non-federal public benefits program in the nation, consisting of ten separate retirement systems, three supplemental retirement savings programs, a health benefits program for employees, retirees, and family members, and several other employee benefits programs. Over 787,000 members enjoy the benefits of the various pension systems administered by the Division and over 780,000 lives are covered in the State Health Benefits Program (SHBP). In addition to the State, 1,732 local public employers participate in the retirement systems and 895 local employers participate in the SHBP.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officer's Association of the United States and Canada (GFOA) recognized the Division's CAFR of last year for Excellence in Financial Reporting. A copy of the Certificate of Achievement is included in this CAFR.

MAJOR INITIATIVES

In FY 2007 the Division concentrated its technology improvement efforts in the area of customer service. As identified in our information technology planning process, we continued to empower our members and the employers through internet utilization by providing them with the tools necessary to initiate and process transactions on a real time interactive basis. As a result, during the past year the Division has allocated resources to the following major initiatives: Employer Pension Information Connection (EPIC), the Member Benefits On-Line System (MBOS) and Customer Relationship Management (CRM).

Employer Pension Information Connection (EPIC) is a set of Internet based applications that provides employers with as many as twenty three inquiry and e-form applications. Employers can now access various payroll certifications, member account information, health benefit status, retirement status, forms and letters and much more. In addition, employers can also submit pension fund enrollment forms (TPAF and PFRS State), member certifications for Retirements, Withdrawals, Deaths and Purchase applications, and Health Benefits Transmittal of Deletions.

The Member Benefits Online System (MBOS) is a set of Internet based applications that allows registered members access to their pension and if applicable, health benefits account information. Members can submit a pension loan, apply for a withdrawal from the pension fund, and change beneficiaries online without the intervention of Division staff. The continued development of applications will have a direct impact on current work processing throughout the operational sections of the Division. As of June 2007, there were eleven inquiry and e-form applications available to our members on-line. The Division's focus on future Internet utilization will move to our retired membership in fiscal year 2008. We plan on implementing several e-forms which will result in the elimination of paper processing and manual work activities for our staff.

The Customer Relationship Management (CRM) system is designed to be the central repository for all inbound communications to the Division (i.e. phones, emails, walk-ins, written correspondence and faxes). CRM will enable us to better focus our information and contacts with clients to provide better and faster service to all clients and constituencies eliminating redundancies and duplicative efforts.

During fiscal year 2007 we completed the design, system integration and programming for the new system. The multi phase extensive testing we conducted assures us the system is ready for production deployment in early Fiscal Year 2008. The Division's future plans are to fully exploit the workflow capability of CRM, in order to track and assign work activities to insure that we optimize our total staff resources. The management reporting capabilities provided as part of CRM will improve the current methods in place to monitor and report metrics associated with customer service activities.

LETTER OF TRANSMITTAL

FINANCIAL INFORMATION

The Financial reports of the Fiduciary Funds of the Division have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. The specific accounting policies can be found in the Notes to the Financial Statements found in the Financial Section.

- The Fiduciary Funds include eleven separate pension trust funds, two health benefit trust funds and three agency funds. A summary of the condition of the funds administered by the Division of Pensions and Benefits is located in the "Management Discussion and Analysis" that begins on page 40 of the CAFR. Management is responsible for establishing and maintaining the accounting systems complete with internal controls so that the data presented is complete and fairly presents the financial position of the Division as of June 30, 2007. KPMG LLP independently audited the funds.

INVESTMENTS

The Division of Investment has the responsibility for investing the assets of the programs administered by the Division. This is done under the jurisdiction of the State Investment Council. Investments are guided by the "prudent person rule". During FY 2007 investment returns on pension funds were 17.13 percent. When combined with the returns for previous years, the annualized returns over the past three, five and ten-year periods were +11.82 percent, +10.51 percent, and +7.92 percent, respectively.

FUNDING

Funding is the keystone of a good benefits system. A fully funded system that has assets sufficient to meet the disability and retirement benefits schedules of all its members is one that instills confidence and trust. I'm pleased to report that our benefits systems are in good financial condition. The liabilities of the actuarially based pension systems are 77.5 percent funded. Members and retirees can feel confident that the State-administered retirement systems in New Jersey will meet their obligations now and in the future.

PROFESSIONAL SERVICES

The Division contracts with several professional organizations for advice and assistance in administering the programs for which it is responsible. The list of these organizations is found on page 94 of the CAFR. The Office of the Attorney General provides all legal services required by the Division of Pensions and Benefits and the retirement system Boards of Trustees.

ACKNOWLEDGEMENTS

The preparation of the CAFR required the combined efforts of many employees from different operational units within the Division. The CAFR is intended to provide extensive and reliable information to facilitate informed decisions, determine compliance with legal requirements, and determine responsible stewardship for the assets contributed by the systems' members, participating employers, and the taxpayers of the State. I would like to take this opportunity to express my gratitude to the Governor, the Legislature, the Treasurer, the Boards of Trustees, the individuals providing professional services, participating employer benefits administrators, and to the outstanding employees of the Division for all their efforts and support. Such concerted effort has resulted in making New Jersey's public benefits system one of the largest and best administered in the nation.

Respectfully Submitted



Frederick J. Beaver Director

ALL IN A YEAR'S WORK...

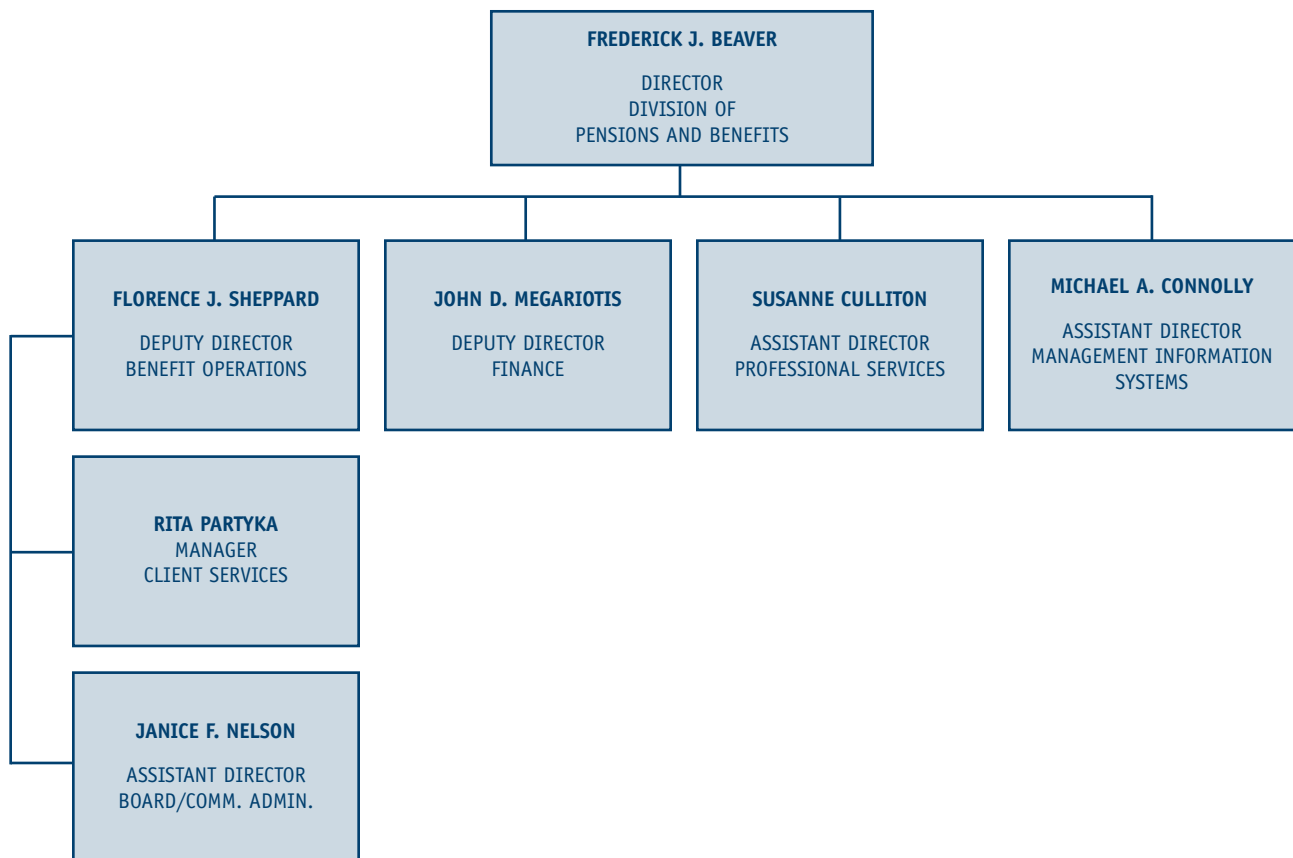
- There are **476,700 ACTIVE MEMBERS** in the combined retirement systems.
- There are **1,756 PARTICIPATING EMPLOYERS** in the combined retirement systems; **5 NEW EMPLOYERS** began participating this year.
- There are **478,845 INDIVIDUAL RETIREMENT SYSTEM MEMBER ACCOUNTS** being maintained; **45,319 MEMBER ACCOUNTS** were audited internally.
- A total of **236,787 RETIREES AND BENEFICIARIES** received monthly pensions totally in excess of **\$5.5 BILLION** annually.
- Over **19,072 BENEFICIARY CLAIMS** were processed. Premiums in excess of **\$201 MILLION** were paid to the insurance carrier on behalf of active and retired members.
- Over **410,000 TELEPHONE CALLS** were received in Client Services. Counselors handled over 275,000 calls; over 1.4 million calls were handled by our automated telephone systems.
- **14,582 PERSONAL INTERVIEWS** were conducted by pensions counselors.
- **715 RETIREMENT SEMINARS** were conducted for over **21,200 MEMBERS**.
- **16,328 SERVICE PURCHASE REQUESTS** were processed.
- Over **64,462 NEW ENROLLMENTS OR TRANSFERS** were processed in our retirement systems.
- There were **11,847 WITHDRAWALS** from the retirement systems.
- **13,761 MEMBERS RETIRED.**
- Over **125,395 PENSION LOANS** totaling **\$538,097,090** were processed.
- State and local membership in the State Health Benefits Program was **356,233 MEMBERS** with **780,177 LIVES COVERED.**
- A total of over **\$3.5 BILLION IN PREMIUMS** was collected from State and local State Health Benefits Program employers and employees. **894 LOCAL EMPLOYERS** elected to participate in the SHBP this year.

ORGANIZATION



EXECUTIVE MANAGEMENT TEAM

Front Row (left to right): John D. Megariotis, *Deputy Director, Finance*
Rita Partyka, *Manager, Client Services*
Susanne Culliton, *Assistant Director, Professional Services*
Back Row (left to right): Frederick J. Beaver, *Director, Division of Pensions and Benefits*
Janice F. Nelson, *Assistant Director, Board and Commission Administration*
Michael A. Connolly, *Assistant Director, MIS*
Florence J. Sheppard, *Deputy Director, Benefit Operations*



ORGANIZATION



CHIEFS AND MANAGERS

Seated, First Row (left to right): Michael Weik – *Administrative Services*, Virginia Martucci – *Retirements and Claims*, Lenard Leto – *Health Benefits Policy and Planning*, Wendy Jamison – *Boards of Trustees*, Rita Partyka – *Client Services*

Second Row (left to right): Joseph Zisa – *Defined Benefit and Contribution Plans*, Mark Schwedes – *Enrollments and Purchases*, Frank Corliss – *MIS*, Francis Peterson – *Financial Reporting, Payments, and Collections*, David Pointer – *Health Benefits*, Timothy McMullen – *Budget and Compliance*

DIRECTOR

The Director is responsible for the coordination of the functions of the Division, the development of the Division budget, and communication with other branches of State government, local government, and the public. The Director serves as the Secretary to the Supplemental Annuity Collective Trust Council, the State Health Benefits Commission, and the State House Commission in its capacity as the Board of Trustees for the Judicial Retirement System. The Director is also responsible for legal and legislative matters and Board of Trustees administration. In addition, the Treasurer has delegated the responsibility of maintaining the Federal-State Agreement for Social Security to the Director of the Division of Pensions and Benefits.

The Division of Pensions and Benefits falls under the jurisdiction of the New Jersey Department of the Treasury. The Director of the Division of Pensions and Benefits reports directly to the State Treasurer.

OFFICE OF OPERATIONS

The work of this office, overseen by a Deputy Director, is divided among three bureaus: Enrollment and Purchase; Claims; and Retirement.

The Enrollment and Purchase Bureau processes all enrollments, transfers, and purchases of service credit for all of the State retirement systems. The Claims Bureau processes all death claims, withdrawals, and loan requests. In addition, this bureau oversees beneficiary designations filed by active and retired members and issues group life insurance policies, riders, and special endorsements. The Retirement Bureau prepares retirement estimates and processes retirement applications for all of the State retirement systems.

OFFICE OF HEALTH BENEFITS

This office, overseen by a Deputy Director, consists of two elements: the Health Benefits Bureau and the Office of Policy Planning. The Health Benefits Bureau processes all enrollments, changes, and terminations for active and retired members of the State Health Benefits Program. In addition, this bureau is responsi-

ORGANIZATION

ble for the administration of benefits under the federal COBRA law, and enrollments, changes, and terminations for members of the Prescription Drug Plan and State Employee Dental Program. The Office of Policy and Planning analyzes and makes recommendations concerning current and proposed health benefits programs to provide the highest quality programs at the least possible cost. It manages contract renewals and requests for proposals. Policy and Planning is responsible for health benefit program review and development. This office also provides administrative support to the State Health Benefits Commission.

OFFICE OF FINANCIAL SERVICES

The work of this office, overseen by a Deputy Director, is divided among three bureaus: Financial Reporting, Payment, and Collections; Budget and Compliance; and Defined Benefit and Contribution Plans Reporting.

The Office of Financial Services is charged with the custodianship of pension and health benefits assets. These assets are in excess of \$90 billion and include over 787,000 individual member accounts. The office is responsible for the accounting and budget functions necessary for the successful operations of the various pension funds, health benefits and agency funds, as well as the administration of the Pension Adjustment Program, the Supplemental Annuity Collective Trust, and Deferred Compensation Plan.

OFFICE OF CLIENT SERVICES

This office, overseen by a Deputy Director, consists of three units: Telecommunications; Counseling, Education, and Support; and Publications. Client Services disseminates pension, life insurance, and health benefits information to employees, retirees, and employers covered by the various New Jersey State-administered retirement systems and benefit programs.

The Telecommunications Unit counsels employees, retirees, and employers via the telephone by providing information about pension, life insurance, health benefits, and general procedures. The Counseling, Education, and Support Unit responds to written requests for information, conducts personal interviews with employees and retirees who visit the Division of Pensions and Benefits, and provides seminars, employer group meetings, employer instructions, and various

presentations concerning pension, life insurance, and health benefits to employees, employers, and retirees. This unit is also responsible for providing receptionist services for the entire Division. The Publications Unit exercises overall responsibility for creating, editing, updating, and printing of written materials disseminated by the Division, including manuals, reports, forms, benefits statements, and booklets. This unit also manages the Division's Internet site.

OFFICE OF MANAGEMENT INFORMATION AND SUPPORT SERVICES

The work of this office, overseen by an Assistant Director, is responsible for the development and maintenance of all processing and management information systems for the Division. This office also has the responsibility for the training, usage, and maintenance of all automated office and telephone equipment.

This office consists of five sections: Image Processing and Records Management; Data Entry; Computer Scheduling and Production Control; Systems Development; and Support Services.

The Support Services section has the responsibility for the building and equipment, mail room, warehouse operations, and forms inventory.

OFFICE OF PROFESSIONAL SERVICES

The Office of Professional Services is located within the Director's Office and operates under the direction of an Assistant Director. It is responsible for providing a structured and consistent planning function for the Division, analyzing proposed legislation for its fiscal and policy impacts, maintaining the regulatory documentation for Division programs, managing the development of contracts with external service providers, and conducting research in support of Division activities.

OFFICE OF BOARD OF TRUSTEES ADMINISTRATION

The Office of Board of Trustees Administration, under the direction of an Assistant Director, provides administrative services for the various defined benefit plans' Boards and Commissions.

The Boards and Commissions have the general responsibility for the proper operation of their respective employee benefits program. The Boards adopt rules in

ORGANIZATION

compliance with statute and advice of the Attorney General. The Boards may grant hearing in disputes concerning issues of law or fact. Hearings are held by the Office of Administrative Law.

The Boards maintain a record of all proceedings and hold regular meetings and special meetings when necessary.

ACTUARIAL ADVISORS

The actuaries establish actuarial tables for the operation of the retirement systems, determine the annual appropriation required of participating employers and conduct annual examinations of the systems' actuarial position.

Contracts for actuarial services for the retirement systems are awarded at specified intervals through the regulations governing the procurement of goods and services for the State of New Jersey and its constituent departments and agencies.

LEGAL ADVISOR

The State Attorney General is the legal advisor for all pension funds and other employee benefit programs.

MEDICAL ADVISORS

All pension funds are served by a medical board consisting of three physicians who review claims for disability as submitted by the Disability Review Section of the Retirement Bureau for the Division of Pensions and Benefits.

ORGANIZATION — BOARDS OF TRUSTEES



PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Seated: Kathleen Coates, *Board Secretary*
(l to r) Leon Flanagan
Roderick Lewis, *Chairperson*
Jackie Bussanich, *Administrative Assistant*

Standing: Edward Thomson, III
(l to r) Frederick J. Beaver, *Treasurer's Representative*
Ronald Winters
Stephen Florek
Jonathan Berg
John Lowden
Kelly Kiefer-Pushko, *Deputy Attorney General*

Absent: Suzanna Buriani-DeSantis



TEACHERS' PENSION AND ANNUITY FUND

Seated: Dawn Harris, *Deputy Attorney General*
(l to r) Marie Flynn
James Clemente, *Chairperson*
James Joyner

Standing: Frederick J. Beaver, *Treasurer's Representative*
(l to r) Dennis Testa
Paul Orihel
Mary Ellen Rathbun, *Board Secretary*
Jackie Bussanich, *Administrative Assistant*

Absent: H. O'Neill Williams



POLICE AND FIREMEN'S RETIREMENT SYSTEM

Seated: Dennis Connelly
(l to r) John Sierchio
Mark Kandrak, *Chairperson*
Richard Mikutsky

Standing: Vincent Foti
(l to r) Thomas Murphy
Frederick J. Beaver, *Treasurer's Representative*
Richard Loccke
Sherryl Gordon
Gail Griffin, *Administrative Assistant*
Christine Lucarelli, *Deputy Attorney General*
Wendy Jamison, *Board Secretary*
Frank Leake

Absent: Nicole Fava

ORGANIZATION — BOARDS OF TRUSTEES



STATE POLICE RETIREMENT SYSTEM

Seated: Frederick J. Beaver, *Treasurer's Representative*
(l to r) Major Marshall Brown, *Chairperson*
Francis White

Standing:
(l to r) Wendy Jamison, *Board Secretary*
Jeffrey Ignatowitz, *Deputy Attorney General*

Absent: Jack Sayers

CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

Thomas Tighe, *Governor Appointee*
William H. Schlueter, *Governor Appointee*
William A. Nagy, Jr., *Governor Appointee*
Frederick J. Beaver, *Treasurer's Representative*
Wendy Jamison, *Board Secretary*

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST

John Megariotis, *Representing Treasurer, State of New Jersey*
Kathy Steepy, *Office of Management and Budget*
Timothy Costello, *Office of Banking and Insurance*

STATE HEALTH BENEFITS COMMISSION

Bradley I. Abelow, *State Treasurer, Chairperson*
Steven Goldman, *Commissioner, Department of Banking and Insurance*
Rolando Torres, Jr., *Commissioner, Department of Personnel*
Frederick J. Beaver, *Secretary*
Eric E. Richard, *State Employees' Representative of the AFL-CIO*
Brian Volz, *NJEA Representative*

DEFERRED COMPENSATION BOARD

Charles Chianese, *Representing Treasurer, State of New Jersey*
Kathy Steepy, *Represents Charlene Holzbaur, Director, Office of Management and Budget*
Timothy Costello, *Represents Steven Goldman, Commissioner, Office of Banking and Insurance*

SIGNIFICANT LEGISLATION

CHAPTER 103, P.L. 2006

This law establishes civil unions and creates the “New Jersey Civil Union Review Commission.

Effective Date: February 19, 2007.

CHAPTER 49, P.L. 2007

This law imposes mandatory imprisonment and mandatory forfeiture of pension and retirement benefits for public officers or employees convicted of certain crimes involving or touching their office or employment.

Its impact on public pensions is as follows:

- It clarifies that the board of trustees of a State or local pension fund can order forfeiture of “earned service credit” and can implement any pension forfeiture ordered by a court, and requires mandatory pension forfeiture for crimes or offenses involving or touching the office, position or employment for a number of crimes enumerated in this law.
- The pension forfeiture will be ordered by the court immediately upon a finding of guilt or a plea of guilty unless the court, for good cause, orders a stay of the pension forfeiture pending a hearing on the merits at the time of sentencing. The law does not preclude the authority of the board of trustees from ordering the forfeiture of all or part of the earned service credit or pension or retirement benefit of any member of the pension system for misconduct occurring at the time of the member’s public service, including cases where the court does not enter an order of forfeiture.
- It provides that the board of trustees of any State or locally-administered pension fund or retirement system may subpoena witnesses and compel their attendance, and also may require the production of documentation in a matter concerning the rendering of honorable service by a public officer or employee seeking to receive a public pension or retirement benefit. If any person refuses to obey any subpoena so issued, or refuses to testify or produce the requested documentation, the board may apply to the Superior Court to compel the person to comply with the subpoena.

- It provides that a State, county or local employer participating in a pension system will be responsible for reimbursement to the plan of all pension costs incurred by the system following any settlement agreement between the employer and an employee that provides for the employer not to pursue any civil or criminal charges or an action for misconduct against the employee in exchange for the employee’s resignation in good standing when the employer fails to fully disclose the settlement to the board of trustees of the pension system.

The pension forfeiture and mandatory terms of imprisonment provisions of this law are prospective in application, and shall apply to crimes or offenses committed after the law takes effect.

Effective Date: Thirty days after approved (April 14, 2007).

CHAPTER 62, P.L. 2007

This law provides a homestead property tax credit for residents of New Jersey and provides a means to ensure that the property tax relief is sustainable through a property tax levy cap of four percent that is applicable to school districts, counties, municipalities, fire districts, and solid waste collection districts.

While most of the provisions of this law deal with establishing the property tax credit and the four percent local employer budget cap, the following sections deal specifically with pensions and/or the State Health Benefits Program (SHBP):

Section 3d: This subsection of the law provides school districts with a limited exception for employee health care costs to exceed the four percent budget cap that is otherwise established by this law. The allowable increase in health care costs is equal to that portion of the actual increase in total health care costs for the budget year, less any withdrawals from the current expense emergency reserve account for increases in total health care costs, that exceeds four percent of the total health care costs in the pre-budget year, but that is not in excess of the product of the total health care costs in the pre-budget year multiplied by the average percentage increase of the SHBP, as determined annually by the Division of Pensions and Benefits. This provision is effective for budget years

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beginning on or after July 1, 2007, and shall not be applicable to budget years beginning after June 30, 2012.

Section 10b.(3): This subsection of the law allows a local unit (defined as a municipality, county, fire district, or solid waste collection district) to exceed the four percent budget cap that is otherwise established by this law for pension contributions as set forth in section 5 of P.L.2003, c.108 (C.40A:4-45.43) for the years indicated in that section. This provision is effective for budget years beginning on or after July 1, 2007, and shall not be applicable to budget years beginning after June 30, 2012.

Section 10b.(5): Similar to the provision applicable to school districts, this subsection of the law allows a local unit to exceed the four percent budget cap that is otherwise established by this law for employee health benefit costs. The increase is limited the actual increase in total health care costs for the budget year that is in excess of four percent of the total health care costs in the prior year, but is not in excess of the product of the total health care costs in the prior year and the average percentage increase of the SHBP, as determined annually by the Division of Pensions and Benefits. This provision is effective for budget years beginning on or after July 1, 2007, and shall not be applicable to budget years beginning after June 30, 2012.

Sections 42 through 45: Allows local employers that participate in the SHBP to pay the premium charges for active employee health benefits coverage based on a binding collectively negotiated agreement. Also allows local employers to establish a Section 125 cafeteria plan. This provision is effective immediately.

Effective Date: This act shall take effect immediately (April 3, 2007); provided, however, sections 2 through 12 shall be applicable only to budget years beginning on or after July 1, 2007, and shall not be applicable to budget years beginning after June 30, 2012; section 13 shall be retroactive to July 1, 2006, and shall not be applicable to budget years beginning after June 30, 2012; and sections 19 through 40 shall first apply to claims for rebates and credits for property taxes paid for the tax year 2006.

CHAPTER 92, P.L. 2007

This law implements certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform. The sections of this law and the various changes they impose are as follows:

Sections 1 to 19: Establishes a Defined Contribution Retirement Program for elected and certain appointed officials and for retired elected officials who choose to participate in the program. The program becomes operational on July 1, 2007. State and local government employers will contribute to the program three percent of the employee's base salary, Group life insurance and the option for disability benefits coverage will be provided to participants. A Defined Contribution Retirement Program Board is established. Participants will contribute five percent of their salary and will be allowed to allocate their contributions and the contributions of their employer into investment alternatives as determined by the new program board.

Section 20: Effective January 1, 2008, a person performing professional services for a political subdivision of this State or of a board of education, or of any agency, authority or instrumentality thereof, under a professional services contract is prohibited from becoming a member of the PERS. In addition, the law provides that a person who performs professional services will not be eligible, on the basis of performance of those professional services, for membership in the PERS, if the person meets the definition of independent contractor as set forth in regulation or policy of the federal Internal Revenue Service for the purposes of the Internal Revenue Code. While a person performing professional services will continue to accrue service credit during the term of any current contract, the person will not accrue service credit for the performance of those services after the contract expires.

Section 21: Requires the Division of Pensions and Benefits to investigate unreasonable increases in compensation reported for credit in the various State-administered retirement systems.

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Section 22: Closes the Workers Compensation Judges Part of the PERS to new members.

Sections 23 to 27: Removes language from existing law that permits the State Treasurer to reduce the amount of normal contributions needed to fund the various State-administered retirement systems when excess assets are available.

Section 28: Requires each of the defined benefit plans to use consistent and generally-accepted actuarial standards. Any modification of the assumption or actuarial methodology at the direction of the State that changes asset values, obligations or annual contributions will require public disclosure and a financial impact analysis prior to adoption.

Sections 29 and 30: Amends the SHBP laws to exclude service credit earned in the defined contribution retirement program from service required for employer-paid health care benefits in retirement.

Section 31: Requires the State Health Benefits Commission to ensure that every contract purchased by the commission to provide benefits under the State managed care plans includes disease and chronic care management for specified conditions meeting nationally recognized accreditation standards.

Sections 32 to 40: Eliminates the four percent fixed rate of interest for loans from the State-administered retirement systems and provides that the rate of interest will be set by the State Treasurer at a commercially reasonable rate as required by the Internal Revenue Code. The sections also permit the charging of an administrative fee for such loans.

Section 41: Provides retirement system members with certain rights to their benefits, as required by the Internal Revenue Code for qualified governmental plans.

Sections 42 to 47: Limits, at the local government and school district level, the payment of supplemental compensation to \$15,000 at the time of retirement for unused sick leave for elected and certain appointed officials. Those who have accrued supplemental compensation based upon unused sick leave at the time this law is enacted, at the expiration of a contract in effect at that time, or upon becoming such an elected

or appointed official, will be eligible to receive the amount so accumulated or not more than \$15,000, whichever is greater. The carry-forward of unused vacation leave is also limited for these same local government and school district officials, to one successive year.

Section 48: Extends to all local public employers the current authorization to provide financial incentives to employees who waive coverage under the SHBP if the employee is eligible for other health care coverage. Under previous law, this option was available to municipalities since 1995, to municipal authorities since 2001, and to county colleges since 2003. The incentive amount is currently limited to no more than 50 percent of the amount saved by the employer through the employee's waiver of coverage.

Effective Date: This act takes effect on the 30th day after the date of enactment (June 8, 2007), except that sections 1 through 19 will take effect on the July 1, 2007 and section 20 will take effect January 1, 2008, but the State may take such anticipatory administrative action in advance thereof as shall be necessary for the implementation of this act.

CHAPTER 103, P.L. 2007

This law provides for the following:

- I. Changes PERS, TPAF and DCRP contribution rates and new employees' compensation base and retirement age;
- II. Implements changes to the SHBP and the transfer of education employees to School Employees' Health Benefits Program; and
- III. Modifies the State Investment Council.

The sections of this law and the various changes they impose are as follows:

I. Pension Benefit Provisions

Sections 1 to 6: Increases the member contribution rate for the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), and for the Defined Contribution Retirement Program (DCRP) from 5% of annual compensation to 5.5% of annual compensation.

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For State employees, teachers and other school district employees enrolled on or after July 1, 2007, the increase will be effective July 1, 2007. For employees currently enrolled in these systems, the increase will be effective with the next payroll period that begins immediately after July 1, 2007. For employees of the Judicial Branch of State government, the University of Medicine and Dentistry, and counties and municipalities enrolled on or after July 1, 2008, the increase will be effective July 1, 2008. For employees of the Judicial Branch of State government, the University of Medicine and Dentistry, and counties and municipalities enrolled in these systems prior to July 1, 2008, the increase will be effective with the next payroll period that begins immediately after July 1, 2008.

Sections 7 and 8: Change the “early retirement” provisions of the TPAF and PERS for teachers and public employees who become members of the systems on or after July 1, 2007. While such a new member who accrues 25 or more years of service will be able to retire before the service retirement age of 60, the member’s retirement allowance will be reduced by 1% per year for each year (1/12 of 1% per month) the member lacks of being age 60 but over age 55 and by 3% per year for each year (1/4 of 1% per month) the member lacks of being age 55.

Sections 9 to 18: Imposes a maximum compensation upon which contributions will be made for TPAF and PERS for teachers and public employees who become members of those systems on or after July 1, 2007. The maximum amount will be the amount of base or the contractual salary equivalent to the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act. For 2007, that amount is \$97,500. A new member for whom this annual maximum will be reached in any year will become a participant of the Defined Contribution Retirement Program, unless the member waives participation when first eligible, but permits the person to elect to participate at a later time, with such election effective on the January 1 following a participation request. For the amount of compensation over the maximum compensation, 5.5% will be deducted as a contribution for the purposes

of the program. When a TPAF or PERS member also becomes a participant in the Defined Contribution Program, the life insurance and disability benefit provisions of that program will be available for that participant.

Section 11 of the law provides immediate rule making authority to the State Treasurer with regard to the Defined Contribution Retirement Program.

The provisions of this law concerning “early retirement” and maximum compensation will apply to teachers and public employees who become members of the TPAF or PERS on or after July 1, 2007. They will not apply to a person who at the time of enrollment in one of these systems on or after July 1, 2007 transfers service credit from another State-administered retirement system, but will apply to a former member of one of these systems who has been granted a retirement allowance and is reenrolled in the retirement system on or after July 1, 2007 after becoming employed again in a position that makes the person eligible to be a member of the retirement system.

II. Health Care Benefits Provisions

This law amends the State Health Benefits Program (SHBP) statutes to reflect changes to the program to be implemented as the result of binding collective negotiations agreements between the Executive branch and collective bargaining units representing State employees. There are two basic changes: (1) the creation and grant of authority to the State Health Benefits Commission to contract for the administration of preferred provider organizations (PPOs), and (2) the establishment of an employee contribution of 1.5% of the employee’s base salary toward the cost of whatever type of SHBP coverage the employee has chosen. Reflecting discussions with the New Jersey Education Association, the law also establishes a School Employees’ Health Benefits Program (SEHBP) through the School Employees’ Health Benefits Act. The SEHBP will provide health care benefits for active and retired education employees through PPOs and HMOs overseen by a new School Employees’ Health Benefits Commission.

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Section 19: Adds a new definition of a “successor plan” to identify a PPO plan that replaces the traditional plan. The definitions of “employee” and “dependents” are updated to reflect coverage of intermittent employees and partners of a civil union.

Section 20: Provides that, upon the creation of the SEHBP, the member of the State Health Benefits Commission representing the New Jersey Education Association will be replaced by a local employees’ representative.

Section 21: Requires any contract entered into after June 30, 2007 by the State Health Benefits Commission to include the successor plan to the Traditional Plan, one or more HMO’s and a State managed care plan substantially equivalent to the NJ PLUS. Describes the availability of the successor plan and the State managed care plan into retirement. The section also recognizes that the State Health Benefits Commission may have issued a request for proposals for the administration of new plans not including the traditional plan.

Section 22: Implements the 1.5% of base salary active employee contribution to the cost of SHBP benefits for State employees per ratified agreements and for all non-aligned State employees, as well as the contribution arrangements for retirees. For State retirees who attain 25 or more years of service, and who retire on or after July 1, 2007, the contribution will not be effective until the New Jersey Retirees’ Wellness Program is open for enrollment. Thereafter, the contribution will be waived for a retiree who participates in the wellness program. The Division of Pensions and Benefits will issue a report on this pilot program. The report will include, but need not be limited to, the claims experience with regard to retirees in the program, and the costs and savings realized. The report will be issued at the end of the third year after the program’s implementation or by December 30, 2010, whichever is earlier. The report will be submitted to the Governor, the Legislature, and the State Treasurer. The section also provides that an employee or retiree may terminate the withholding of the contribution for

SHBP benefits if the participant withdraws from SHBP coverage and certifies current coverage by other health benefits.

Section 23: Codifies in law the services and benefits to be included in contracts for the new PPOs and provides for coordination between the State Health Benefits Commission and the new School Employees’ Health Benefits Commission in effectuating provisions of the School Employees’ Health Benefits Program Act, contained within this law, which creates the new SEHBP to cover active and retired educators.

Sections 24 to 26: Replaces references to the traditional plan or NJ PLUS with the more general references in statutes related to notification of termination of a physician contract, SHBP coverage if both husband and wife are eligible for SHBP benefits, and SHBP benefits for certain members of the National Guard.

Sections 27 to 30: Amends SHBP statutes to delete references to school board participation and coverage of education employees once their health care benefits are under the SEHBP.

Section 31: Provides that Sections 31 through 41 will be known and cited as the School Employees’ Health Benefits Program Act.

Section 32: Defines terms used for the School Employees’ Health Benefits Program (SEHBP), which is anticipated to be operational July 1, 2008, including employers able to participate in SEHBP.

Sections 33 to 35: Creates and describes the responsibilities and powers of the School Employees’ Health Benefits Commission, administered in the Department of the Treasury. The commission will have nine members: the State Treasurer, the Commissioner of the Department of Banking and Insurance, an appointee of the Governor, a person appointed by the Governor from New Jersey School Board Association nominations, three persons appointed by the Governor from New Jersey Education Association nominations, a person appointed by the Governor from New Jersey State AFL-CIO nominations, and a chairperson

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appointed by the Governor from nominations jointly submitted by at least six of the other eight members of the commission. The Director of the Division of Pensions and Benefits will serve as secretary.

Sections 36 to 39: Describe the benefits, services and payment obligations of the SEHBP. Prescription drug benefits will be provided through the School Employee Prescription Drug Plan or a free-standing employer prescription drug plan or the prescription drug part of a SEHBP plan. Prescription drug benefits for retirees will be provided through the School Retiree Prescription Drug Plan.

Section 40: Requires of the School Employees' Health Benefits Commission certain annual reports, periodic audits and review of program costs.

Section 41: Provides that the provisions of the SHBP statutes will continue to be applicable to SEHBP, except as expressly stated to the contrary in the School Employees' Health Benefits Program Act.

Sections 42 to 49: Amends and supplements existing law to reflect implementation of the School Employees' Health Benefits Program. Sections 43 and 44 amend the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. Sections 48 and 49 create separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees.

III. State Investment Council Provisions

Section 50: Changes the membership of the State Investment Council from 11 to 13 members, with the addition of one member to be appointed by the Governor from among three persons nominated by the Public Employee Committee of the New Jersey State AFL-CIO to serve for a term of three years, and one member to be appointed by the Governor from among three persons nominated by the New Jersey Education Association (NJEA) to serve for a term of three years. If the persons nominated are

not acceptable to the Governor for appointment, the Governor may request submission of new nominees.

The number of appointments made by the Governor with the advice and consent of the Senate is increased from five to six. The number members designated from the Board of Trustees of the Public Employees' Retirement System, the Board of Trustees of the State Police Retirement System, the Board of Trustees of the Teachers' Pension and Annuity Fund, and the Board of Trustees of the Police and Firemen's Retirement System of New Jersey is changed to four members elected by the boards from the active members of their respective retirement systems or from the retirees of those systems who are receiving a retirement allowance. The term of the four members is increased from one to three years. The member from the Consolidated Police and Firemen's Pension Fund Commission is eliminated.

The two members appointed from the persons nominated by the AFL-CIO and the NJEA will be qualified by training, experience or long-term interest in the direct management, analysis, supervision, or investment of assets. This training, experience or long-term interest is to have been supplemented by academic training in the fields of economics, business, law, finance or actuarial science or by actual employment in those fields. At least five of the seven members appointed by the Governor with the advice and consent of the Senate and from persons nominated by the General Assembly Speaker or Senate President will be qualified by training and experience in the direct management, analysis, supervision or investment of assets, provided that this training and experience has been acquired through academic training or actual employment in those fields.

Requires the members of the State Investment Council to file the same annual financial disclosure statements as those required to be filed by members of other State boards and commissions who are not compensated for their services, as required by law or executive order of the Governor. The financial disclosure statements of council members

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will be made available to the public in the same manner as the statements of members of other State boards and commissions are made available to the public.

The terms of the members of the council serving on the 30th day after the law takes effect, other than the five members appointed by the Governor with the advice and consent of the Senate to serve for terms of five years and the one member appointed by the Governor from persons nominated jointly by the President of the Senate and the Speaker of the General Assembly to serve for a term of five years, are terminated.

Section 51: Requires the council to issue a report by March 1 of each year, in addition to the reports already required by law, on the investment activities for the prior calendar year, to include a summary of the current investment policies and strategies of the council and those in effect during the prior calendar year, a detailed summary of the amount invested, whether the investments were made by employees of the Division of Investment or by external managers, performance benchmarks, and actual performance during the calendar year. The report is to be submitted to the Governor, the Legislature, and the State Treasurer, and made available to the public through the official Internet site of the State.

The council is required to hold an open public meeting each year, and accept comments from the public at such a meeting. The matters that will be open to discussion and public comment during this annual meeting will include the investment policies and strategies of the council, the investment activities of the council, the financial disclosures

statements filed by council members, and the certification of contributions filed by external managers, as well as other appropriate matters concerning the operations, activities and reports of the council.

Finally, the amendment requires an external manager to file a certification before being retained and annually thereafter that discloses the political contributions made during the 12 months preceding the certification by the manager or the manager's firm, or a political committee in which the manager or firm was active. The certification must specify the political contributions made to candidates for the elective public office in this State and any political committee established for the support of such candidate, and contributions made for the transition and inaugural expenses of any candidate who is elected to public office. As used here, "contribution" and "political committee" will have the meaning set forth in "The New Jersey Campaign Contributions and Expenditures Reporting Act," P.L.1973, c.83 (C.19:44A-1 et seq.).

Effective Date: This act shall take effect immediately (June 28, 2007), except that sections 12 through 16, inclusive, shall take effect July 1, 2007, and sections 27 through 29, inclusive, shall take effect July 1, 2008, and sections 31 through 41, inclusive, shall take effect immediately and shall be implemented as soon as practicable as determined by the School Employees' Health Benefits Commission so that the School Employees' Health Benefits Program shall be operational as of July 1, 2008, and sections 50 and 51 shall take effect on the 30th day after enactment but such anticipatory action may be taken in advance thereof as shall be necessary for the implementation of the sections.

SCOPE OF OPERATIONS

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

This system was established by Chapter 84, P.L. 1954, after the repeal of the law creating the former State Employees' Retirement System. The retirement benefits of this system are coordinated, but not integrated with, Social Security. This system is maintained on an actuarial reserve basis. Under the terms of Chapter 71, P.L. 1966, most public employees in New Jersey not required to become members of another contributory retirement program are required to enroll.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 15A. Rules governing the operation and administration of the fund may be found in Title 17, Chapter 2 of the New Jersey Administrative Code.

TEACHERS' PENSION AND ANNUITY FUND (TPAF)

This fund was reorganized by Chapter 37, P.L. 1955. The retirement benefits of this system and coordinated, but not integrated with, Social Security. This fund is maintained on an actuarial reserve basis. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional, and certified.

Statutes can be found in the New Jersey Statutes Annotated, Title 18A, Chapter 66. Rules governing the operation and administration of the system may be found in Title 17, Chapter 3 of the New Jersey Administrative Code.

POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)

This system was established by Chapter 255, P.L. 1944. All policemen and firemen, appointed after June 1944, in municipalities where local police and firemen pension funds existed or where this system was adopted by referendum or resolution are required to become members of this system. Certain State and county employees are also covered. Employer obligations are paid by the local employers and the State. This system is maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 16A. Rules governing the

operation and administration of the system may be found in Title 17, Chapter 4 of the New Jersey Administrative Code.

STATE POLICE RETIREMENT SYSTEM (SPRS)

This system was created by Chapter 89, P.L. 1965 as a successor to the State Police Retirement and Benevolent Fund. All uniformed officers and troopers of the Division of State Police in the New Jersey Department of Law and Public Safety are required to enroll. This system is maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 53, Chapter 5A. Rules governing the operation and administration of the system may be found in Title 17, Chapter 5 of the New Jersey Administrative Code.

JUDICIAL RETIREMENT SYSTEM (JRS)

This system was established by Chapter 140, P.L. 1973 after the repeal of the laws providing pension benefits to members of the State judiciary and their eligible survivors. All members of the State judiciary are required to enroll. The system is maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 6A. Rules governing the operation and administration of the system may be found in Title 17, Chapter 10 of the New Jersey Administrative Code.

ALTERNATIVE BENEFIT PROGRAM (ABP)

This program was established by several pieces of legislation between 1965 and 1968 for full-time faculty members of public institutions of higher education. It was later expanded to include certain administrative and professional titles.

Chapter 385, P.L. 1993 increased the number of investment carriers to six. The investment carriers underwriting annuities are as follows: ING Aetna Financial Services, The Travelers Insurance Company (represented by CitiStreet), Lincoln Financial Group, Metropolitan Life Insurance Company, Teachers' Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) and Variable Annuity Life

SCOPE OF OPERATIONS

Insurance Company (VALIC). The ABP is a “defined contribution” plan as distinguished from “defined benefits” payable by the other State retirement systems. Immediate vesting after the first year’s participation offers the mobility of pension credit among the private and public institutions of higher education in the United States and Canada. Group life insurance and long-term disability insurance are underwritten by the Prudential Insurance Company of America, Inc.

Statutes can be found in the New Jersey Statutes Annotated, Title 18A, Chapter 66. Rules governing the operation and administration of this program may be found in Title 17, Chapter 7 of the New Jersey Administrative Code.

PRISON OFFICERS’ PENSION FUND (POPF)

This fund was established under Chapter 220, P.L. 1941. It was closed to new employees as of January 1960. New employees are enrolled in the Police and Firemen’s Retirement System. This system is not maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 7.

CONSOLIDATED POLICE AND FIREMEN’S PENSION FUND (CPFPF)

This fund was established by Chapter 358, P.L. 1952, to place 212 local police and firemen pension funds on an actuarial reserve basis. The membership consists of police and firemen appointed prior to July 1, 1944. The liabilities of these local funds were shared: two-thirds by the participating municipalities and one-third by the State.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 16. Rules governing the operation and administration of this fund may be found in Title 17, Chapter 6 of the New Jersey Administrative Code.

NEW JERSEY STATE EMPLOYEES DEFERRED COMPENSATION PLAN (NJSEDCP)

This plan was established by Chapter 39, P.L. 1978 and is available to any State employee who is a member of a State-administered retirement system. This plan is a voluntary investment program that provides retirement

income separate from and in addition to the basic pension benefit.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A.

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST (SACT)

This trust was established by Chapter 123, P.L. 1963. This program includes active members of several State-administered retirement systems. Members make voluntary additional contributions through their pension funds to purchase variable retirement annuities in order to supplement the benefits provided by their basic system. Some employers agree to purchase tax-sheltered annuities for the same purpose for certain eligible employees.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A. Rules governing the operation and administration of the trust may be found in Title 17, Chapter 8 of the New Jersey Administrative Code.

ADDITIONAL CONTRIBUTIONS TAX-SHELTERED PROGRAM (ACTS)

The Additional Contributions Tax-Sheltered Program (ACTS) was established in 1996. ACTS is a tax-sheltered, supplemental, retirement program pursuant to Section 403(b) of the federal Internal Revenue Code offered to employees of institutions of higher education, the Commission of Higher Education, the Department of Education, and the Office of Student Assistance. The eligible employees are able to obtain tax-deferred annuities with a variety of investment carriers through a salary reduction agreement. The annuities are available from the same investment carriers who service the Alternate Benefit Program.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A, Section 113.

CENTRAL PENSION FUND (CPF)

This fund consists of the administration of a series of noncontributory pension acts. No reserves are established for the payment of retirement benefits. These benefits are administered by the Division in accordance with the governing statute and the rules and regulations of the State House Commission.

SCOPE OF OPERATIONS

PENSION ADJUSTMENT FUND (PAF)

This fund was established pursuant to Chapter 143, P.L. 1958 and covers all eligible pensions of State-administered retirement systems. It was altered by Chapter 169, P.L. 1969, which provided a cost-of-living adjustment and by Chapter 139, P.L. 1971 which extended its provisions to eligible survivors.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A. Rules governing the operation and administration of the fund may be found in Title 17, Chapter 1 of the New Jersey Administrative Code.

UNEMPLOYMENT COMPENSATION AND TEMPORARY DISABILITY INSURANCE FOR STATE EMPLOYEES (UC/TDI)

The Division of Pensions and Benefits coordinates the work related to the payment of the charges involving unemployment compensation and temporary disability insurance benefits for State employees eligible for coverage under federal law. It is responsible for contracting with a service agency to review all questionable claims for unemployment compensation.

STATE HEALTH BENEFITS PROGRAM (SHBP)

The program provides medical coverage to employees, retirees, and their dependents. It includes a basic indemnity type plan (Traditional Plan), a point-of-service plan (NJ PLUS), and several HMOs. Chapter 125, P.L. 1964 extended the program to include employees of local government.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Article 17.25 et. seq. Rules governing the operation and administration of the program can be found in Title 17, Chapter 9 of the New Jersey Administrative Code.

PRESCRIPTION DRUG PLAN (PDP)

This plan was initiated by the State effective December 1, 1974. The passage of Chapter 41, P.L. 1976 extended coverage to all eligible State employees. The State Health Benefits Commission offered the plan to local employers on July 1, 1993. Employees and their eligible dependents are covered by the plan

in the same manner as the State Health Benefits Program. The Division of Pensions and Benefits became responsible for its administration in November 1976.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Section 17.29(F). Rules governing the operation and administration of the program can be found in Title 17, Chapter 9, of the New Jersey Administrative Code.

EMPLOYEE DENTAL PLANS (EDP)

The program was initially established February 1, 1978 and further expanded in June 1984. Eligible State and certain local employees may enroll for themselves and their eligible dependents by paying the premium calculated to meet half the cost of the plan. Plans offered include the Dental Expense Plan, a traditional indemnity plan, and a selection of Dental Plan Organizations.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Section 17.29(F). Rules governing the operation and administration of the program may be found in Title 17, Chapter 9, of the New Jersey Administrative Code.

TAX\$AVE

This benefit program for State Employees, authorized under Section 125 of the Internal Revenue Code, was initially established in July 1996. The benefit consists of three components: the Premium Option Plan that allows employees to use pre-tax dollars deducted from their pay for health or dental benefit premiums they may be required to pay for coverage; the Flexible Spending Account for Unreimbursed Medical Expenses that allows employees to use up to \$2,000 pre-tax dollars annually deducted from their pay for medical expenses not reimbursed by their medical or dental insurance; and the Dependent Care Spending Account that allows employees to use up to \$5,000 pre-tax dollars annually deducted from their pay for dependent care expenses required to permit the employee and spouse to work.

Statutes can be found in the New Jersey Statutes Annotated 52:14-15.1a. Rules governing the Tax\$ave can be found in Title 17, Chapter 1, Subchapter 13 of the New Jersey Administrative Code.

SCOPE OF OPERATIONS

COMMUTER TAX\$AVE

This benefit program, authorized by Chapter 162, P.L. 2001 and available under Section 132(f) of the federal Internal Revenue Code, allows eligible State employees to use before-tax dollars to pay for qualified commuter expenses. Under the program, eligible employees may execute salary reduction agreements to have up to \$105 per month (\$1,260 per year) deducted from salary to pay for mass transit commutation costs and \$200 per month (\$2,400 per year) to pay for parking at work or at park and ride sites. The program was implemented in February 2004.

Statutes can be found in the New Jersey Statutes Annotated 52:14-17.33a. Rules governing Commuter

Tax\$ave can be found in Title 17, Chapter 1, Subchapter 14 of the New Jersey Administrative Code.

STATE EMPLOYEES LONG TERM CARE INSURANCE PLAN

The State Employees Long Term Care Insurance Plan is a participant-pay-all benefit available to State employees, retirees, and family members. The Prudential Insurance Company administers the insurance plan under contract with the State. The initial offering of the benefit was effective July 1, 2003.

Statutes can be found in the New Jersey Statutes Annotated 52:14-15.9a and 34:11-4.4b(10).

MEMBERSHIP

ACTIVE MEMBERSHIP	RETIREMENT SYSTEM	2006	2007
		Public Employees' Retirement System	327,696*
	Teachers' Pension & Annuity Fund	156,204*	158,079*
	Police & Firemen's Retirement System	45,913*	46,055*
	State Police Retirement System	3,123*	3,096*
	Judicial Retirement System	438	421
	Alternate Benefit Program	16,509	16,994
	Prison Officers' Pension Fund	0	0
	Consolidated Police & Firemen's Pension Fund	0	0
	Central Pension Fund	NA	NA
	Total	549,883	548,683
<p><i>*Both the 2006 and 2007 figures represent the total number of Active and Inactive accounts. The 2007 Inactive (noncontributing) accounts are as follows: PERS Inactive — 46,925, TPAF Inactive — 14,703, PFRS Inactive — 1,886, SPRS Inactive — 123</i></p>			
RETIRED MEMBERSHIP & BENEFICIARIES	RETIREMENT SYSTEM	2006	2007
		Public Employees' Retirement System	124,333
	Teachers' Pension & Annuity Fund	68,559	71,921
	Police & Firemen's Retirement System	30,329	31,726
	State Police Retirement System	2,338	2,428
	Judicial Retirement System	446	459
	Alternate Benefit Program	NA	NA
	Prison Officers' Pension Fund	176	170
	Consolidated Police & Firemen's Pension Fund	707	611
	Central Pension Fund	325	317
	Total	227,213	236,209
<p><i>*The number of retirees varies slightly from those reported in the Notes to the Financial Statements due to differences in the effective dates of said tabulations.</i></p>			
PARTICIPATION IN HEALTH BENEFITS PROGRAM	HEALTH PROGRAM	2006	2007
		State Health Benefits Program	364,447
	Prescription Drug Plan	151,066	144,306
	Dental Expense Program	141,716	145,750

MEMBERSHIP

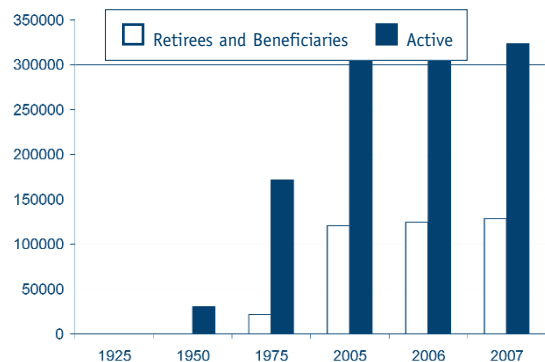
PUBLIC EMPLOYEES'S RETIREMENT SYSTEM

As of June 30, 2007, the active membership of the system totaled 324,038. There were 128,577 retirees and beneficiaries receiving annual pensions totaling \$1,867,475,574*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$109,559,172.

The system's assets totaled \$34,640,923,133 at the close of the fiscal year 2007.

* Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.



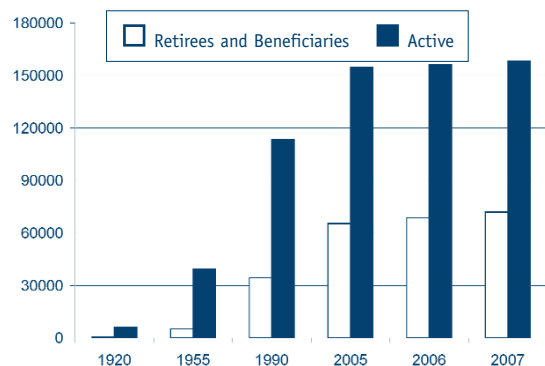
TEACHERS' PENSION AND ANNUITY FUND

As of June 30, 2007, the active membership of the system totaled 158,079. There were 71,921 retirees and beneficiaries receiving annual pensions totaling \$2,395,332,364*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$58,220,617.

The fund's assets totaled \$42,479,670,284 at the close of the fiscal year 2007.

* Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.



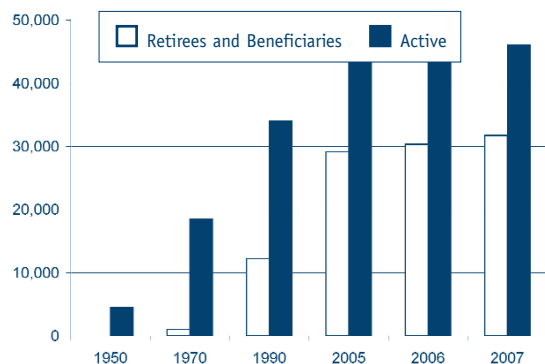
POLICE AND FIREMEN'S RETIREMENT SYSTEM

As of June 30, 2007, the active membership of the system totaled 46,055. There were 31,726 retirees and beneficiaries receiving annual pensions totaling \$1,220,700,516*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$32,643,052.

The system's assets totaled \$25,491,729,441 at the close of the fiscal year 2007.

* Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.



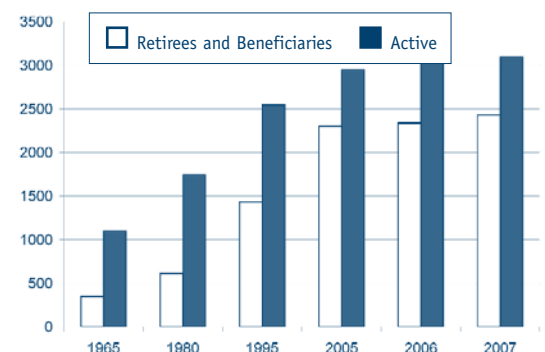
STATE POLICE RETIREMENT SYSTEM

As of June 30, 2007, the active membership of the system totaled 3,096. There were 2,428 retirees and beneficiaries receiving annual pensions totaling \$110,620,918*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$291,981.

The system's assets totaled \$2,535,802,779 at the close of the fiscal year 2007.

* Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.

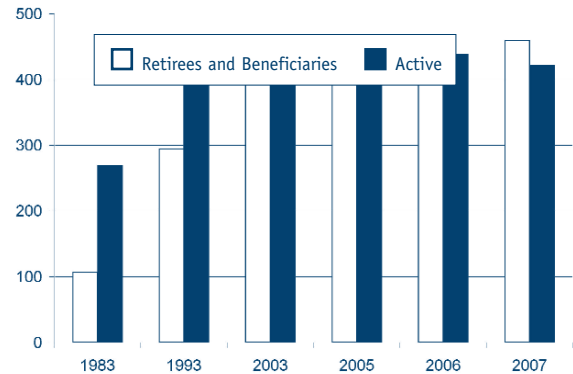


MEMBERSHIP

JUDICIAL RETIREMENT SYSTEM

As of June 30, 2007, the active membership of the system totaled 421. There were 459 retirees and beneficiaries receiving annual pensions totaling \$32,795,549.

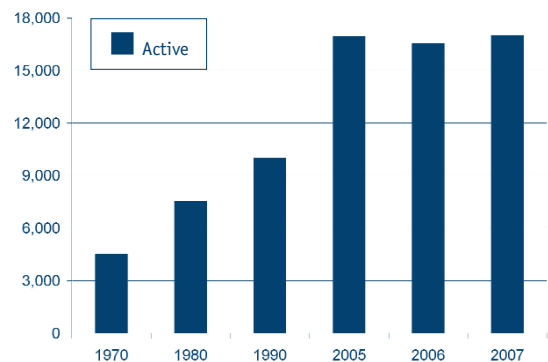
The system's assets totaled \$447,752,493 at the close of the fiscal year 2007.



ALTERNATE BENEFIT PROGRAM

As of June 30, 2007, the State paid \$130,776,783 on behalf of 16,994 participants to the carriers underwriting this program.

Beneficiaries of deceased active and retired members received \$12,309,039 in lump sum death benefits.



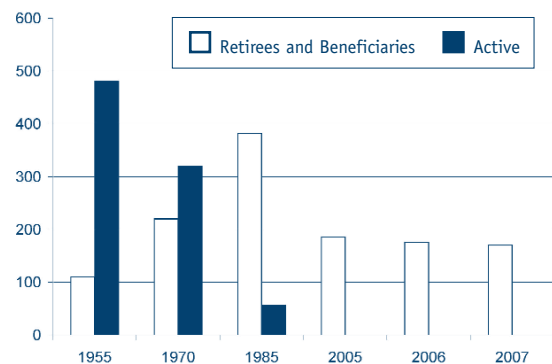
PRISON OFFICERS' PENSION FUND

The activity shown to the right is consistent with a closed pension fund.

This fund was closed to new membership in January 1960.

As of June 30, 2007, the active membership of the fund totaled zero. There were 170 retirees and beneficiaries receiving annual pensions totaling \$2,356,383.

The fund's assets totaled \$13,672,296 at the close of the fiscal year 2007.

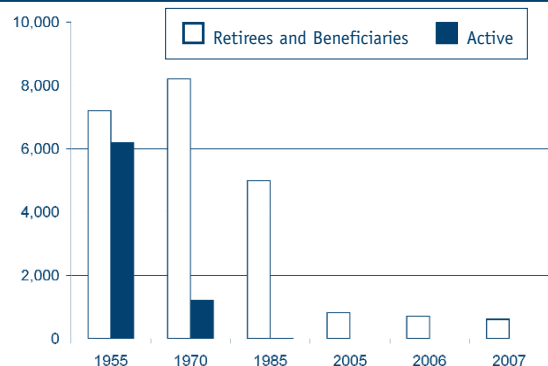


CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

The activity shown to the right is consistent with a closed pension fund.

As of June 30, 2007, the active membership of the fund totaled zero. There were 611 retirees and beneficiaries receiving annual pensions totaling \$11,873,928.

The fund's assets totaled \$16,400,894 at the close of the fiscal year 2007.



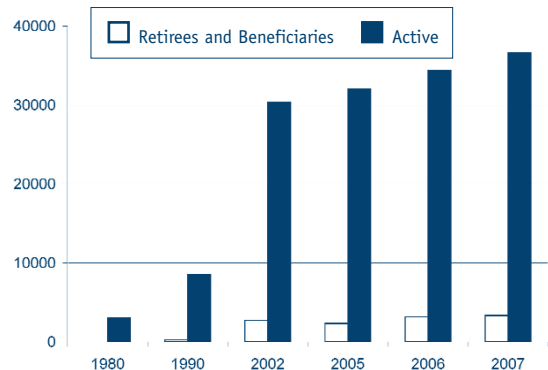
MEMBERSHIP

NJ STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

Fiscal year 2007 continues to show a marked increase in active participation due to membership campaigns conducted by the Division of Pensions and Benefits.

As of June 30, 2007, the active membership of the New Jersey State Employees' Deferred Compensation Plan totaled 36,599. There were 3,338 members receiving monthly installment payments.

The plan's net assets (participants' balances) were \$2,068,148,264 at the close of the fiscal year 2007.

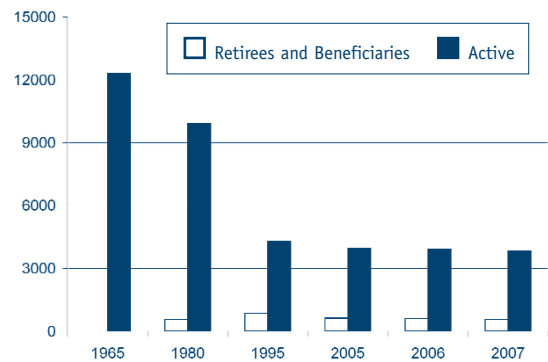


SUPPLEMENTAL ANNUITY COLLECTIVE TRUST

As of June 30, 2007, the active membership of the trust totaled 3,823. The unit value was \$69.9873, an increase of \$7.9594 from the June 30, 2006 value of \$62.0279.

There were 578 annuitants.

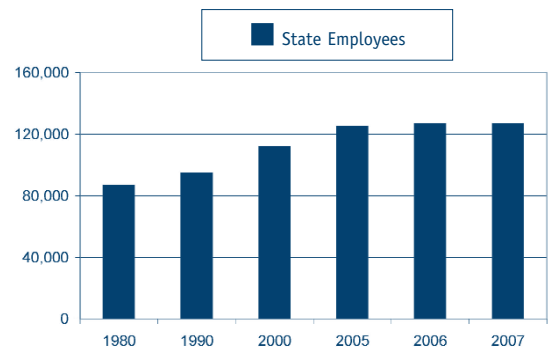
The trust's assets totaled \$184,554,581 at the close of the fiscal year 2007.



UNEMPLOYMENT COMPENSATION AND TEMPORARY DISABILITY INSURANCE

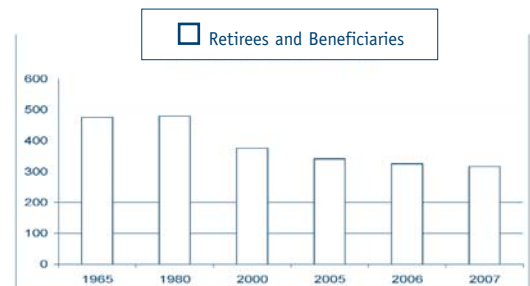
As of June 30, 2007, the Unemployment Compensation Program for State employees covered as many as 127,005 persons, and the Division remitted \$3,985,477.66 on behalf of the State. There were 7,623 requests for unemployment benefits filed, and \$16,860,625 was paid to the employees found eligible.

During the same period, the Temporary Disability Insurance Program covered 140,281 employees, and the Division remitted \$31,924,840.38 on behalf of the State. Claims paid totaled \$31,803,804.



CENTRAL PENSION FUND

As of June 30, 2007, there were 317 beneficiaries receiving annual pensions totaling \$426,800.



MEMBERSHIP

PENSION ADJUSTMENT EXPENSE

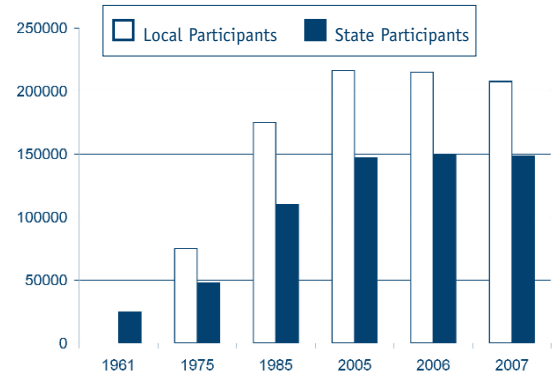
There were 208,261 pensioners who were paid \$699,428,733.83 during the fiscal year 2007.



STATE HEALTH BENEFITS PROGRAM

As of June 30, 2007, there were 356,233 covered participants (active and retired) consisting of 148,616 State participants and 207,617 participants of 894 local participating employers.

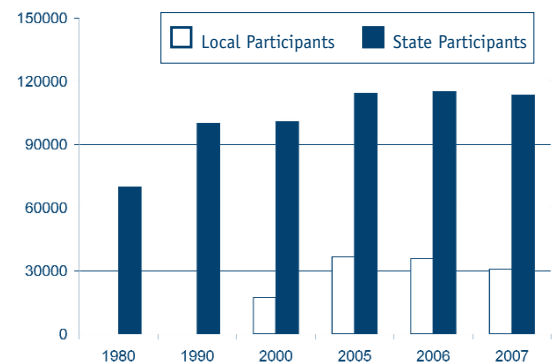
The State and state employee contributions were \$1,178,014,346 while payment made by local employers and employees was \$2,086,701,195.



PRESCRIPTION DRUG PLAN

The Prescription Drug Plan covered as many as 113,423 State employees and 30,883 local employees during fiscal year 2007.

The State's contribution was \$189,797,720 while payment made by local employers was \$90,801,190.



DENTAL EXPENSE PROGRAM

The Dental Expense Program covered as many as 114,157 eligible State participants and 31,593 local participants during fiscal year 2007. The State of New Jersey as the employer expended \$37,950,886 for active participants while payment made by local employers was \$1,055,336.

