

DIVISION OF PENSIONS AND BENEFITS

A Department of the State of New Jersey

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

for the Fiscal Year Ended June 30, 2014



*The Eastern Goldfinch
was chosen to be the state
bird of New Jersey in 1935.*

OUR MISSION . . .

To provide quality benefits and services that meet the needs of our clients and others we are committed to serve, through our efficient and responsive workforce.

OUR VISION . . .

WE will achieve client satisfaction through equitable, effective, responsive service, and clear and accessible communications that meet the needs of our clients.

WE will encourage and support an accomplished workforce that is knowledgeable, flexible, technically proficient and committed to excellence.

WE will be committed to working with executive and legislative agencies and governing boards to improve the design and implementation of the benefit programs.

WE will support technologies that simplify procedures and improve services, manage our resources in a responsible and creative manner, and hold contracted service providers to high standards.

WE will work with participating employers to enhance their role in the administration of benefits for their employees through integrated technology that allows them to access and process benefit information directly.

OUR VALUES . . .

WE are customer-focused, recognizing each client individually.

WE acknowledge as our greatest asset our knowledgeable, hardworking, dedicated and caring staff.

WE are financially responsible in the administration, oversight, and delivery of our benefit programs.

WE are committed to providing quality, timely, accurate, efficient, and cost effective services.

WE are committed to creating and developing a quality work environment using state-of-the-art technologies, and processes that foster continuous

improvement of our organization through teamwork, motivation, and communication among staff.

OUR GOALS . . .

Customer Service —

TO create and maintain a customer focused work environment that anticipates and meets client needs.

Staff —

TO have a full complement of staff that is well trained, undergoes continual development, and is motivated to provide benefit services effectively and efficiently in a customer friendly manner.

Technology —

TO have an integrated, easily maintained and modified, information processing system that supports the efficient and effective delivery of services.

Planning —

TO have an effective planning system that facilitates improvement, anticipates change and properly focuses resources on priorities.

Benefits Processing —

TO provide benefits to clients in a timely and efficient manner.

Advocacy —

TO help structure a well-funded system of benefits that meets the needs of public employees and employers.

Oversight and Compliance —

TO administer programs with clear and consistent policies and procedures and provide oversight to safeguard fund assets and ensure benefit entitlement.

NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

A Department of the State of New Jersey

59th
COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CHRIS CHRISTIE

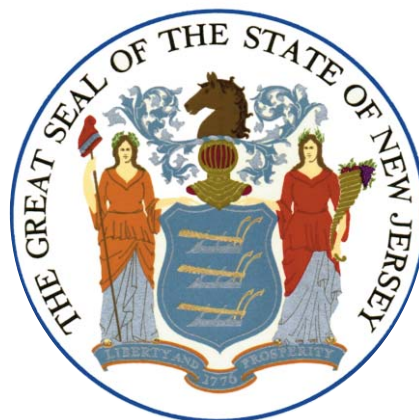
Governor

ANDREW P. SIDAMON-ERISTOFF

State Treasurer

FLORENCE J. SHEPPARD

Acting Director



State of New Jersey • Department of the Treasury
Division of Pensions and Benefits

PO Box 295

Trenton, NJ 08625-0295

(609) 292-7524

PROGRAMS ADMINISTERED BY THE 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
DCRP	Defined Contribution Retirement Program
ABP	Alternate Benefit Program
POPF	Police Officers' Pension Fund
CPFPF	Consolidated Police and Firemen's Pension Fund
NJSEDCP	New Jersey 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
SEHBP	School Employees' Health Benefits Program
PDP	Prescription Drug Plan
EDP	Employee Dental Plans
Tax\$ave	New Jersey State Employees' Tax Savings Program: Premium Option Plan, Unreimbursed Medical Flexible Spending Account , and Dependent Care Flexible Spending Account
Commuter Tax\$ave	State Employees' Commuter Tax Savings Program
LTC	State Employees Long Term Care Insurance Plan

INDEPENDENT AUDITOR KPMG LLP – 51 John F. Kennedy Parkway, Short Hills, NJ 07078-2702

ACTUARIAL REPORTS Buck Consultants – 500 Plaza Drive, Secaucus, NJ 07096-1533
 Milliman – 1550 Liberty Ridge Drive, Suite 200, Wayne, PA 19087-5572
 AON Hewitt – 400 Atrium Drive, Somerset, NJ 08873

TABLE OF CONTENTS

Introductory Section

Letter of Transmittal	11
All in a Year's Work (Accomplishments in 2014)	14
Organization	15
Organization – Board of Trustees	19
Significant Legislation	21
Scope of Operations	22
Membership	25

Financial Section

Index	33
Independent Auditors' Report	34
Management's Discussion and Analysis (Unaudited)	36
Basic Financial Statements:	
Statement of Fiduciary Net Position – Fiduciary Funds	42
Combining Statement of Fiduciary Net Position – Fiduciary Funds – Pension Trust and Other Postemployment Benefit Plans	43
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	44
Combining Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Pension Trust and Other Postemployment Benefit Plans	45
Notes to Financial Statements.....	46
Supplementary Schedules:	
<i>Required Supplementary Information (Unaudited)</i>	
Defined Benefit Pension Plans:	
1 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	78
2 Schedule of Employer Contributions.....	79
3 Schedule of Investment Returns – Annual Money-Weighted Rate of Return, Net of Investment Expense	82
Defined Benefit Other Postemployment Benefit Plans:	
4 Schedule of Funding Progress.....	84
5 Schedule of Employer Contributions.....	86
<i>Supplementary Information</i>	
6 Schedule of Administrative Expenses	87
7 Schedule of Investment Expenses	88
8 Schedule of Expenses for Consultants.....	89
9 Schedule of Fiduciary Net Position – Fiduciary Funds.....	90
10 Schedule of Changes in Fiduciary Net Position – Fiduciary Funds	91
11 Combining Schedule of Fiduciary Net Position Information – Fiduciary Funds – Select Pension Trust Funds	92
12 Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds – Select Pension Trust Funds.....	93
13 Combining Schedule of Fiduciary Net Position Information – Fiduciary Funds – State Health Benefit Program Fund – State.....	94
14 Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds – State Health Benefit Program Fund – State	95

TABLE OF CONTENTS

15	Combining Schedule of Fiduciary Net Position Information – Fiduciary Funds – State Health Benefit Program Fund – Local	96
16	Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds – State Health Benefit Program Fund – Local.....	97
17	Combining Schedule of Fiduciary Net Position Information – Fiduciary Funds – State Health Benefit Program Fund – Education	98
18	Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds – State Health Benefit Program Fund – Education	99
19	Combining Schedule of Balance Sheet Information – Fiduciary Funds – Agency Funds.....	100
20	Combining Schedule of Changes in Fiduciary Net Position Information – Fiduciary Funds – Agency Funds.....	101
21	Combining Schedule of Balance Sheet Information – Agency Fund – Dental Expense Program.....	102
22	Combining Schedule of Changes in Fiduciary Net Position Information – Agency Fund – Dental Expense Program.....	103
23	Schedule of Changes in Assets and Liabilities Information – Agency Fund – Alternate Benefit Program Fund.....	104
24	Schedule of Changes in Assets and Liabilities Information – Agency Fund – Pension Adjustment Fund.....	105
25	Schedule of Changes in Assets and Liabilities Information – Agency Fund – Dental Expense Program – Total.....	106
26	Schedule of Changes in Assets and Liabilities Information – Agency Fund – Dental Expense Program – State	107
27	Schedule of Changes in Assets and Liabilities Information – Agency Fund – Dental Expense Program – Local.....	108

Investment Section

Investment Director’s Letter	111
State Investment Council – Key Regulations Pertaining to Pension Fund Assets.....	112
Rate of Return	113
Pension Fund Asset Allocation.....	114
Pension Fund Composite Asset Allocation History (Graph)	115
U.S. Equities Market – Portfolio Sector Weightings (Graph)	116
International Equities Market – Portfolio Sector Weightings (Graph).....	116
List of Largest Assets Held.....	117
Commission on Global Securities	119
Schedule of Fees	120

TABLE OF CONTENTS

Actuarial Section

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Actuary's Certification Letter	122
Summary of Actuarial Assumptions and Methods	125
Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls	129
Schedule of Active Member Valuation Data.....	130
Solvency Test.....	131
Analysis of Past Financial Experience.....	132
Summary of Benefit and Contribution Provisions	134

TEACHERS' PENSION AND ANNUITY FUND (TPAF)

Actuary's Certification Letter	139
Summary of Actuarial Assumptions and Methods	142
Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls	152
Schedule of Active Member Valuation	152
Solvency Test	152
Analysis of Financial Experience	153
Summary of Principal Plan Provisions.....	154

POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)

Actuary's Certification Letter	158
Summary of Actuarial Assumptions and Methods.....	161
Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls	164
Schedule of Active Member Valuation Data.....	165
Solvency Test	166
Analysis of Past Financial Experience – State	167
Analysis of Past Financial Experience – Local	168
Summary of Benefit and Contribution Provisions	169

STATE POLICE RETIREMENT SYSTEM (SPRS)

Actuary's Certification Letter	171
Summary of Actuarial Assumptions and Methods.....	174
Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls.....	177
Schedule of Active Member Valuation Data.....	177
Solvency Test.....	177
Analysis of Past Financial Experience.....	178
Summary of Benefit and Contribution Provisions.....	179

TABLE OF CONTENTS

JUDICIAL RETIREMENT SYSTEM (JRS)

Actuary's Certification Letter	181
Summary of Actuarial Assumptions and Methods	184
Schedule of Retired Members and beneficiaries Added to and Removed from Rolls.....	186
Schedule of Active Member Valuation Data.....	186
Solvency Test	186
Analysis of Past Financial Experience.....	187
Summary of Benefit and Contribution Provisions	188

CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND (CPFPF)

Actuary's Certification Letter	190
Summary of Actuarial Assumptions and Methods	192
Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls	193
Schedule of Active Member Valuation Data.....	193
Solvency Test	193
Analysis of Past Financial Experience.....	194
Summary of Benefit and Contribution Provisions	195

PRISON OFFICERS' PENSION FUND (POPF)

Actuary's Certification Letter	196
Summary of Actuarial Assumptions and Methods	198
Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls	199
Schedule of Active Member Valuation Data.....	199
Solvency Test	199
Analysis of Past Financial Experience	200
Summary of Benefit and Contribution Provisions	201

Statistical Section

Schedule of Retired Members By Type of Retirement	205
Schedule of Revenues By Source	206
Schedule of Expense By Type.....	210
Schedule of Changes in Net Position	215
Participating County and Municipal Employers.....	220
Participating Education Employers.....	223
Participating Agencies and Authorities.....	226
Participating State Departments and Pension Funds.....	227

INTRODUCTORY SECTION



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**New Jersey Division
of Pensions and Benefits**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO



Chris Christie
Governor



Andrew P. Sidamon-Eristoff
State Treasurer



Florence J. Sheppard
Acting Director,
Division of Pensions
and Benefits



State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
(609) 292-7524 TDD (609) 292-6683
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Mailing Address:
PO Box 295
Trenton, NJ 08625-0295
Location:
50 West State Street
Trenton, New Jersey

Letter of Transmittal

June 2015

To the Honorable

Chris Christie, Governor
Andrew P. Sidamon-Eristoff, 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 59th Comprehensive Annual Financial Report (CAFR) of the New Jersey State-administered retirement systems and related benefit programs for the fiscal year ended June 30, 2014. 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.

The Reporting Entity

The Division was established in 1955 as the Division of Pensions to provide 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, three health benefits programs for employees, retirees, and family members, and several other employee benefits programs. Over 797,066 members enjoy the benefits of the various pension systems administered by the Division, and over 888,523 lives are covered in the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). In addition to the State, 1,813 local public employers participate in the retirement systems, and 1,140 local employers participate in the SHBP and SEHBP.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Division's CAFR for fiscal year ended June 30, 2013 for Excellence in Financial Reporting. A copy of the Certificate of Achievement is included in this CAFR.

Major Initiatives

As part of the Internal Revenue Service Voluntary Compliance Program (VCP), the Division has been working closely with tax counsel concerning a project involving inactive defined benefit plan members. It requires the Division to notify inactive defined benefit plan members who are vested for retirement purposes because of pension service credit and/or age. These mandatory notices have been ongoing and provide members with detailed information on how to obtain

either retirement benefits or withdraw the pension contributions in a lump sum. Over 4,000 letters were mailed to vested former Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) members who have already attained normal retirement age. The letters explained how to claim the benefits available to them and informed them of the provisions of the IRC 409(a)(9), which requires these individuals to start receiving benefits no later than April 1 of the calendar year following the calendar year in which they attain age 70 ½. This will be an ongoing compliance project.

In addition, the Division was involved in another VCP project involving pension loan requirements. The implementation of the loan processing changes involved upgrades to the on-line Loan and mainframe applications, the Interactive Voice Response System (IVR) and revisions to Fact Sheet # 81.

An incentive based wellness program, NJWELL, was introduced for employees participating in the SHBP and SEHBP in October 2013. The goal of the program is to make employees more aware of their medical condition and take action to improve their health status. The program is currently in a 3-year pilot phase. In an effort to increase awareness of NJWELL, the Division sponsored several biometric screening events throughout the State which was well attended by employees.

Retirees, for the first time, will be able to choose from the five Dental Plan Organizations (DPO) as well as the Dental Expense Plan (DEP) for their dental coverage. Since retirees pay the full cost of the dental plan, the DPOs will provide retirees with a lower cost option for their dental care. A special Open Enrollment period was provided to allow retirees to choose the lower cost plans. In addition, this special Open Enrollment permitted retirees who missed the opportunity to enroll in the Retiree Dental plan when they were first eligible to enroll. Retirees were notified of this special open enrollment through a direct mailing to their homes.

In other developments, the Division's Call Center implemented an 'Expected Wait Time (EWT) Application.' It was piloted for a two week period in the health benefits and retired payroll phone queues to monitor the accuracy of the wait time. Members begin to hear the EWT after they have been in queue for more than 15 minutes. Members have the option of either holding for the next available representative or transferring back to the Interactive Voice Response System (IVR).

The Division has a presence on Facebook (a social networking site), YouTube (a video sharing site), and Twitter (a microblogging site). These sites have been created for the limited purpose of generally discussing the Division's pension systems, health benefit programs and operations. It is not intended nor created to be a general public forum, or to discuss individual member or retiree specific information. These social media tools are also not meant to replace the Division's traditional methods of communication. They simply provide new ways in which to engage with our active members, retirees, beneficiaries, and others who have an interest in the Division. Our presence is complementary to our Web site, which will remain the primary official source of information regarding the agency.

The Division continued its efforts to provide additional automated and self-service processing opportunities to both the members and employers of the State-administered retirement systems. Notably, the Purchase Authorization application has been successfully deployed to the Member Benefits Online System (MBOS). Members who receive a quotation of the cost to purchase additional service credit and who choose to pay for the purchase through payroll deductions will now be able to authorize the deductions through the MBOS application. In addition, the Police and Firemen's Retirement System (PFRS) Enhanced Enrollment Application was successfully deployed to local employers in September.

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 twelve separate pension trust funds, three health benefit program 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 36 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, 2014. 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 2014 investment returns on pension funds were +16.72 percent. When combined with the returns for previous years, the annualized returns over the past three, five and ten-year periods were +10.13 percent, +12.37 percent, and +7.51 percent, respectively.

Funding

Fully funding the State's pension liabilities and offering sustainable public employee benefits are a major objective. With budgetary constraints and growing benefit liabilities, the Division recognizes that further reform is necessary. Viable solutions, including the proposal articulated by the New Jersey Pension and Health Benefit Study Commission, a bipartisan panel of employee benefit experts created by Executive Order 161, should be pursued. The Division has and will continue to devote its resources to support this important objective.

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 89 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,

A handwritten signature in black ink, appearing to read "Florence J. Sheppard", written in a cursive style.

Florence J. Sheppard, Acting Director

All in a Year's Work...

- There are **410,630 active members** in the combined retirement systems.
- There are **1,813 participating employers** in the combined retirement systems; **33 new employers** began participating this year.
- There are **418,284 individual retirement system member accounts** being maintained; **10,315 member accounts** were audited internally.
- A total of **301,950 retirees and beneficiaries** received monthly pensions totaling in excess of **\$9.1 billion** annually.
- Over **9,480 beneficiary claims** were processed. Premiums in excess of **\$246 million** were paid to the insurance carrier on behalf of active and retired members.
- Over **856,000 inbound calls** were received by the Division. Over **473,000** callers selected a phone representative and over **383,000** were handled by the Interactive Voice Response system (IVR).
- **15,992 personal interviews** were conducted by pension counselors.
- **353 seminars** and webinars were conducted for over **8,395 members**.
- **10,843 service purchase requestes** were processed.
- **30,936 new enrollments or transfers** were processed in our retirement systems.
- There were **8,386 withdrawals** from the retirement systems.
- **15,544 members retired**.
- Over **104,643 pension loans** totaling **\$659,311,820** were processed.
- State and local membership in the State Health Benefits Program and School Employees' Health Benefits Program was **412,214 members** with **888,523 lives covered**.
- A total of over **\$6.01 billion in premiums** was collected from State and local State Health Benefits Program employers, School Employees' Health Benefits Program employers, and combined employees. **1,140 local employers** elected to participate in the SHBP or SEHBP this year.

ORGANIZATION

Executive Management Team

Seated, Front Row (left to right):

Susanne Culliton, *Assistant Director,
Professional Services and Board of Trustees;*

Florence J. Sheppard, *Acting Director;*

John D. Megariotis, *Deputy Director, Finance;*

Back Row (left to right):

Frank Corliss, *Assistant Director, Management
Information Systems;*

Janice F. Nelson, *Assistant Director,
Client Services and Benefits Operations;*

David Pointer, *Assistant Director, Health Benefits
and Publications*



Chiefs and Managers

Seated, Front Row (left to right):

Timothy McMullen, *Budget and Compliance;*

Mary Ann Ryan, *Client Services;*

Nancy Ronaghan, *Defined Benefit and
Contribution Plans;*

Back Row (left to right):

Michael Weik, *Operations;*

Wendy Jamison, *Boards of Trustees;*

Peter Mullings, *Administrative Services;*

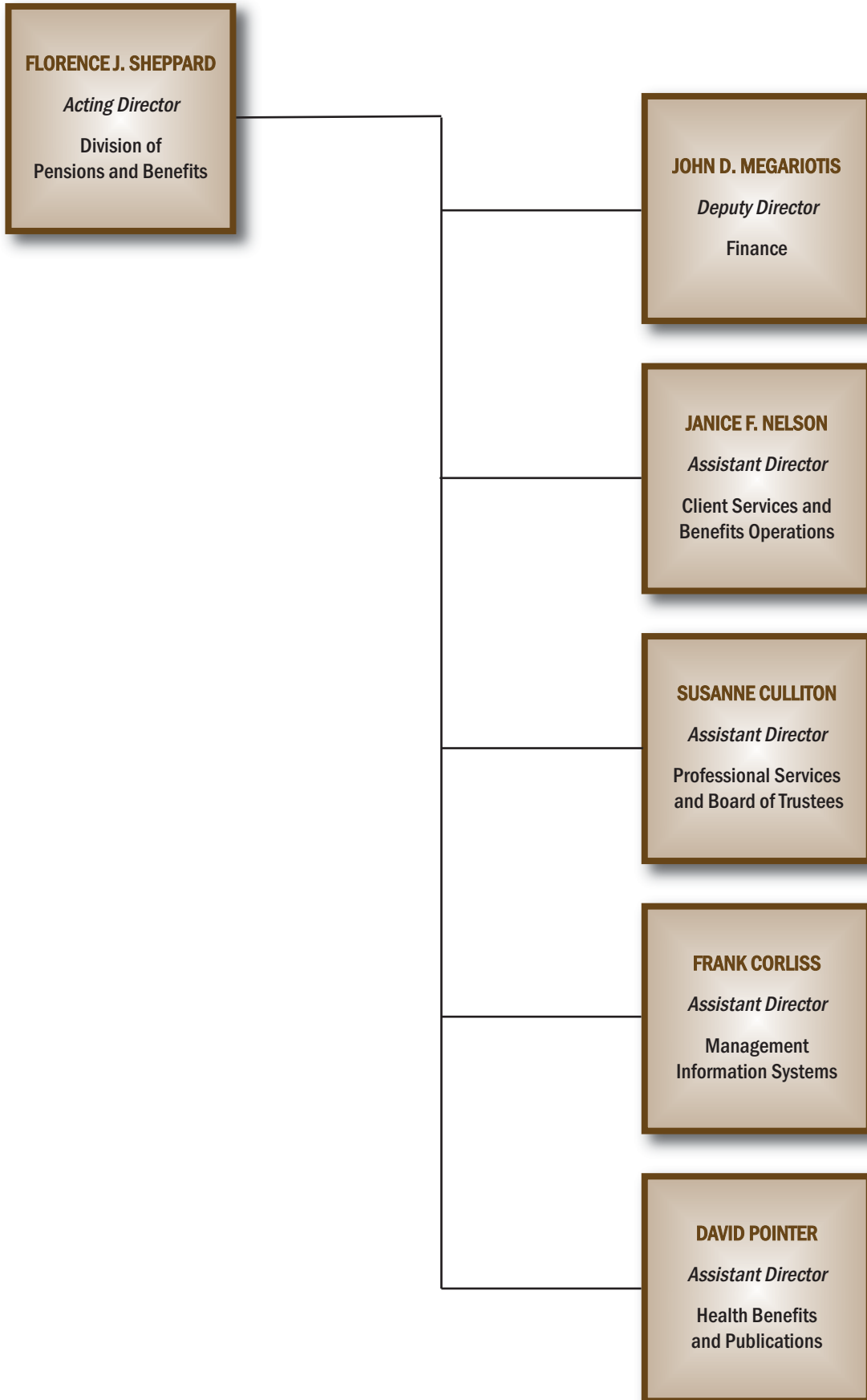
Mark Cipriano, *Health Benefits Policy and
Planning;*

Absent:

Francis Peterson, *Financial Reporting, Payments,
and Collections*



ORGANIZATION



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 responsible 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 \$87.3 billion and include over 797,066 individual member accounts. The office is re-

sponsible 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.

ORGANIZATION

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 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, Front Row (left to right): Leon Flanagan, *Chairperson*; Thomas Bruno; Peter Maurer
Standing (left to right): Edward (Ned) Thomson, III; Hank Schwedes, *Board Secretary*; Ronald Winthers; Robert Kelly, *Deputy Attorney General*; Benjamin (Max) Hurst
Absent: Susanne Culliton, *Treasurer's Representative*; William O'Brien; Suzanna Buriani-DeSantis; Jacquelyn Bussanich, *Administrative Assistant*



Teachers' Pension and Annuity Fund

Seated, Front Row (left to right): Martha Liebman; James Joyner, *Chairperson*; Mary Ellen Rathbun, *Board Secretary*
Standing (left to right): H. O'Neil Williams; Susanne Culliton, *Treasurer's Representative*; Edward McCarthy; Paul Orihel; Erland Nordstrom; Jeff Ignatowitz, *Deputy Attorney General*; Jacquelyn Bussanich, *Administrative Assistant*



Police and Firemen's Retirement System

Seated, Front Row (left to right): Marty Barrett; Wayne Hall, *Chairperson*; Vincent Foti; John Sierchio
Standing (left to right): Frank Leake; Lisa Pointer, *Administrative Assistant*; Laurel Brennan; Richard Loccke; Susanne Culliton, *Treasurer's Representative*; Wendy Jamison, *Board Secretary*; Danielle Schimmel, *Deputy Attorney General*; Timothy Colacci



State Police Retirement System

Seated, Front Row (left to right): Patrick Callahan, *Chairperson*; Paulette Knutowicz
Standing (left to right): Lisa Pointer, *Administrative Assistant*; Susanne Culliton, *Treasurer's Representative*; Jeff Ignatowitz, *Deputy Attorney General*; Wendy Jamison, *Board Secretary*
Absent: Jack Sayers

ORGANIZATION — BOARDS OF TRUSTEES

Supplemental Annuity Collective Trust

John Megariotis, Chairperson, Representing Andrew P. Sidamon-Eristoff, Treasurer, State of New Jersey;
Leslie Notor, Representing Charlene Holzbaur, Director, Office of Management & Budget;
Felix Schirripa, Representing Kenneth E. Kobylowski, Commissioner, Department of Banking & Insurance

Deferred Compensation Board

David Ridolfino, Chairperson, Representing Andrew P. Sidamon-Eristoff, Treasurer, State of New Jersey;
Leslie Notor, Representing Charlene Holzbaur, Director, Office of Management & Budget;
Felix Schirripa, Representing Kenneth E. Kobylowski, Commissioner, Department of Banking & Insurance

Defined Contribution Retirement Program Board

Nancy Ronaghan, Chairperson, Representing Florence J. Sheppard, Acting Director, Division of Pensions & Benefits;
Sonia Rivera-Perez, Representing Charlene Holzbaur, Director, Office of Management & Budget;
Felix Schirripa, Representing Kenneth E. Kobylowski, Commissioner, Department of Banking & Insurance;
Timothy Walsh, Director, Division of Investment

State Health Benefits Commission

Andrew P. Sidamon-Eristoff, State Treasurer, Chairperson;
Kenneth E. Kobylowski, Commissioner, Department of Banking & Insurance;
Robert Czech, Chairperson, Civil Service Commission;
Florence J. Sheppard, Secretary;
Patrick Nowlan, State Employees' Representative of the AFL-CIO;
Dudley Burge, Local Employees' Representative of the AFL-CIO

School Employees' Health Benefits Commission

David Earling, Chairperson;
Andrew P. Sidamon-Eristoff, Treasurer, State of New Jersey;
Kenneth E. Kobylowski, Commissioner, Department of Banking & Insurance;
Cynthia Jahn, Representing the NJ School Boards Association;
Florence J. Sheppard, Secretary;
Kevin Kelleher, Representing the NJEA;
Wendell Steinhauer, Representing the NJEA;
Joseph Del Grosso, Representing the AFL-CIO

SIGNIFICANT LEGISLATION

Chapter 87, P.L. 2013

Effective Date: August 7, 2013

Division's Section(s) Affected by this Law: Purchase Section.

Description: This law allows a member of the New Jersey State Police Retirement System (SPRS) to purchase credit in the retirement system for military service in the Armed Forces of the United States prior to becoming a member. A member may purchase credit for all or a portion of such service, up to 10 years, plus an additional 5 years if the member qualifies as a veteran with certain wartime military service. The SPRS credit purchased for prior military service will be equivalent to service in the State Police as a member of SPRS in qualifying for retirement benefits.

Chapter 120, P.L. 2013

Effective Date: August 9, 2013, retroactive to July 1, 2008.

Division's Section(s) Affected by this Law: DB and DC Plans Reporting.

Description: This law amends a provision of the Alternate Benefit Program (ABP) to allow a distribution of retirement benefits prior to separation from service for any individual who is a participant in a transition to retirement program which meets the requirements established by the Division of Pensions and Benefits in the Department of the Treasury. The law clarifies that the division may authorize a transition to retirement program by regulation.

Transition to retirement programs allow public colleges and universities to retain retiring experienced senior faculty members on a limited basis. These programs permit a faculty member to receive a distribution from his or her retirement account in the ABP while continuing to work at a reduced level of assignment for a period of time. The law is retroactive to July 1, 2008, to provide for its applicability to current transition to retirement programs at public colleges and universities.

Chapter 189, P.L. 2013

Effective Date: January 17, 2014.

Division's Section(s) Affected by this Law: SHBP/SEHBP.

Description: This law requires the State Health Benefits Program (SHBP) and certain joint insurance funds to provide at no cost, and not more than once in a 24-month period, complete claims experience data to a public employer that participates in the SHBP or the joint insurance fund and makes a written request for its claims experience information including loss reports and large claims data. The law requires the SHBP and joint insurance fund to provide the complete claims information in an electronic and manual format to the participating public employer within 60 days of receipt of a written request.

Under current law, provisions concerning the SHBP apply also to the School Employees Health Benefits Program (SEHBP). Therefore, provisions of this law will apply to requests made by school districts participating in the SEHBP.

Chapter 196, P.L. 2013

Effective Date: May 1, 2014. Sections 1 through 9 of this act shall apply to all contracts and policies that are delivered, issued, executed, or renewed or approved for issuance or renewal in this State on or after the effective date.

Division's Section(s) Affected by this Law: SHBP/SEHBP.

Description: This law requires the SHBP/SEHBP and other health insurers to cover breast evaluations and other additional medically necessary testing under certain circumstances and requires certain mammogram reports to contain information on breast density.

Pursuant to the provisions of this law, health insurers are to provide health benefits coverage for an ultrasound evaluation, a magnetic resonance imaging scan, a three-dimensional mammography, or other additional testing of an entire breast or breasts, after a baseline mammogram examination, if the mammogram demonstrates extremely dense breast tissue, if the mammogram is abnormal within any degree of breast density including not dense, moderately dense, heterogeneously dense, or extremely dense breast tissue, or if the patient has additional risk factors for breast cancer. The law provides that the additional risk factors include, but are not limited to, family history of breast cancer, prior personal history of breast cancer, positive genetic testing, extremely dense breast tissue based on the Breast Imaging Reporting and Data System, or other indications as determined by the patient's health care provider.

Under the law, the additional coverage required to be provided by health insurers may be subject to utilization review, including periodic review, by the health insurer of the medical necessity of the additional breast screening and diagnostic testing.

In addition, the law requires that each mammography report provided to a patient include information about breast density, based on the Breast Imaging Reporting and Data System established by the American College of Radiology.

Chapter 253, P.L. 2013

Effective Date: January 17, 2014.

Division's Section(s) Affected by this Law: Board of Trustees.

Description: This law eliminates numerous obsolete authorities, boards, commissions, councils, divisions, and task forces.

As it relates to the Division, Section 58 of the law repeals N.J.S.A. 43:7-18, which created the Prison Officers Pension Commission, and repeals N.J.S.A. 43:16-6.1, which created the Consolidated Police and Firemen's Pension Fund Commission.

Sections 25 through 28 of this law transfer the responsibilities of the Prison Officers Pension Commission to the Division of Pensions and Benefits. Sections 29 through 33 transfer the responsibilities of the Consolidated Police and Firemen's Pension Fund Commission to the Division of Pensions and Benefits.

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 are 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 police officers and firefighters, appointed after June 1944, in municipalities where local police and fire 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.

Defined Contribution Retirement Program (DCRP)

This program was established July 1, 2007 under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010. The program is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) §401(a) et seq., and is a "governmental plan" within the meaning of IRC §414(d). Eligible members are provided with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Individuals eligible for membership include State or Local Officials who are elected or appointed on or after July 1, 2007; employees enrolled in the PERS or TPAF on or after July 1, 2007 who earn salary in excess of established "maximum compensation" limits; employees enrolled in the PFRS or SPRS after May 21, 2010 who earn salary in excess of established "maximum compensation" limits; and employees otherwise eligible to enroll in the PERS or TPAF on or after November 2, 2008, who do not earn the minimum annual salary required for PERS or TPAF Tier 3 enrollment or do not work the minimum hours per week required for PERS or TPAF Tier 4 enrollment.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 15C, Article 1 et seq.

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: VALIC; AXA Financial (Equitable); The Hartford; ING Life Insurance and Annuity Co.; MetLife (formerly Travelers/CitiStreet); and the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). 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 of 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.

SCOPE OF OPERATIONS

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 fire pension funds on an actuarial reserve basis. The membership consists of police and firefighters 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.

Prudential Retirement was selected as the NJSEDCP's third-party administrator on August 26, 2005. The Division of Pensions and Benefits maintains its administrative oversight functions.

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)

This program 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.

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. Chapter 125, P.L. 1964 extended the program to include employees of local government. The program includes a preferred provider organization (NJ DIRECT) and two HMO plans (Aetna HMO and CIGNA HealthCare). A small group of State employees are covered under legacy plans — the indemnity type plan (Traditional Plan) and a point-of-service plan (NJ PLUS).

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.

SCOPE OF OPERATIONS

School Employees' Health Benefits Program (SEHBP)

The program provides medical coverage to local education employees, retirees, and their dependents. Chapter 103, P.L. 2007 established the program which includes a preferred provider organization (NJ DIRECT) and two HMO plans (Aetna HMO and CIGNA HealthCare).

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Article 17.46 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 plan 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)

This 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

The State Employees Tax Savings Program (Tax\$ave) was initially established for State Employees in July 1996 and authorized under Section 125 of the Internal Revenue Code. 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 \$2,500 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, Title 52, Chapter 14, Article 15.1a. Rules governing the Tax\$ave can be found in Title 17, Chapter 1, Subchapter 13 of the New Jersey Administrative Code.

Commuter Tax\$ave

This 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 \$230 per month (\$2,760 per year) deducted from salary to pay for mass transit commutation costs and \$230 per month (\$2,760 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, Title 52, Chapter 14, Article 17.33. 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

This 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, Title 52, Chapter 14, Article 15.9a and Title 34, Chapter 11, Article 4.4b(10).

State Employees Long Term Care Insurance Plan

This 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, Title 52, Chapter 14, Article 15.9a and Title 34, Chapter 11, Article 4.4b(10).

MEMBERSHIP

Active Membership

Retirement System	2013	2014
Public Employees Retirement System	279,145*	272,400*
Teachers' Pension and Annuity Fund	153,458*	154,487*
Police and Firemen's Retirement System	41,518*	41,140*
State Police Retirement System	2,776*	2,544*
Judicial Retirement System	417	401
Alternate Benefit Program	23,165	24,236
Prison Officers' Pension Fund	0	0
Consolidated Police and Firemen's Pension Fund	0	0
Central Pension Fund	NA	NA
Total	500,044	495,208

* Both the 2013 and 2014 figures represent the total number of Active and Inactive accounts.

The 2014 Inactive (noncontributing) accounts are as follows:

PERS Inactive – 47,833, TPAF Inactive – 13,968, PFRS Inactive – 2,303, SPRS Inactive – 40.

Retired Membership & Beneficiaries

Retirement System	2013	2014
Public Employees Retirement System	156,099	160,400
Teachers' Pension and Annuity Fund	91,701	94,795
Police and Firemen's Retirement System	41,020	42,422
State Police Retirement System	3,246	3,398
Judicial Retirement System	575	589
Alternate Benefit Program	NA	NA
Prison Officers' Pension Fund	117	103
Consolidated Police and Firemen's Pension Fund	175	141
Central Pension Fund	9	10
Total	292,942*	301,858*

* 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.

Participation in Health Benefits Program

Health Program	2013	2014
State Health Benefits Program and School Employees' Health Benefits Program	408,575	412,214
Prescription Drug Plan	342,730	344,410
Dental Expense Program	176,512	181,538

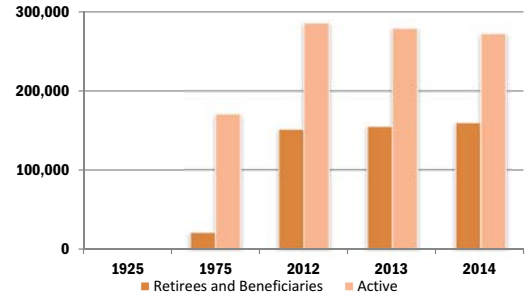
MEMBERSHIP

Public Employees' Retirement System

As of June 30, 2014, the active membership of the system totaled 272,400. There were 160,400 retirees and beneficiaries receiving annual pensions totaling \$3,062,651,112*. Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$127,100,559.

The system's assets totaled \$30,287,131,832 at the close of the fiscal year 2014.

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

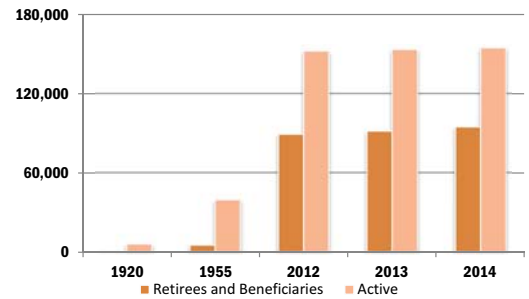


Teachers' Pension and Annuity Fund

As of June 30, 2014, the active membership of the fund totaled 154,487. There were 94,795 retirees and beneficiaries receiving annual pensions totaling \$3,755,010,520*. Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$74,929,067.

The fund's assets totaled \$28,306,717,467 at the close of the fiscal year 2014.

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

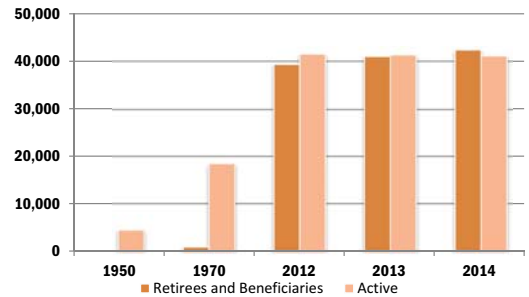


Police and Firemen's Retirement System

As of June 30, 2014, the active membership of the system totaled 41,140. There were 42,422 retirees and beneficiaries receiving annual pensions totaling \$2,054,143,289*. Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$42,612,105.

The system's assets totaled \$25,634,206,777 at the close of the fiscal year 2014.

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

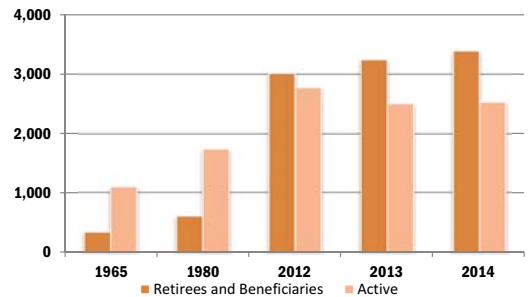


State Police Retirement System

As of June 30, 2014, the active membership of the system totaled 2,544. There were 3,398 retirees and beneficiaries receiving annual pensions totaling \$196,462,464*. Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$1,148,273.

The system's assets totaled \$1,989,409,033 at the close of the fiscal year 2014.

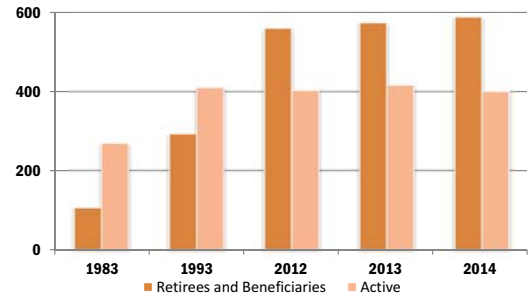
* Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.



Judicial Retirement System

As of June 30, 2014, the active membership of the system totaled 401. There were 589 retirees and beneficiaries receiving annual pensions totaling \$49,010,181.

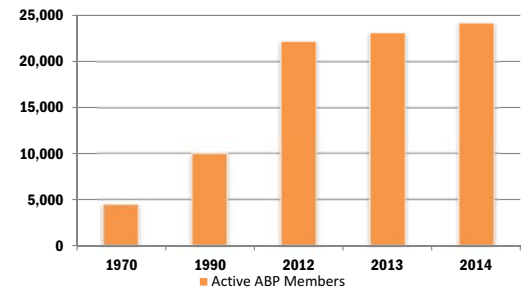
The system's assets totaled \$239,345,204 at the close of the fiscal year 2014.



Alternate Benefit Program

As of June 30, 2014, the State paid \$160,881,353 on behalf of 24,236 participants to the carriers underwriting this program.

Beneficiaries of deceased active and retired members received \$20,481,226 in lump sum death benefits.



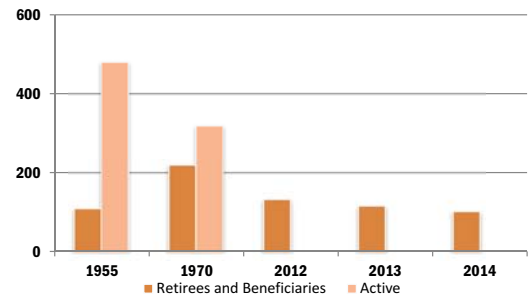
Prison Officers' Pension Fund

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

The fund was closed to new membership in January 1960.

As of June 30, 2014, the active membership of the fund totaled zero. There were 103 retirees and beneficiaries receiving annual pensions totaling \$1,583,408.

The fund's assets totaled \$7,509,836 at the close of the fiscal year 2014.

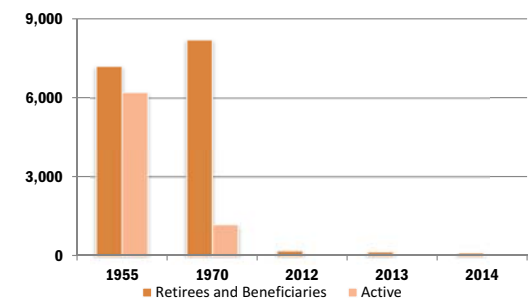


Consolidated Police and Firemen's Pension Fund

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

As of June 30, 2014, the active membership of the fund totaled zero. There were 141 retirees and beneficiaries receiving annual pensions totaling \$2,942,034.

The fund's assets totaled \$3,559,208 at the close of the fiscal year 2014.



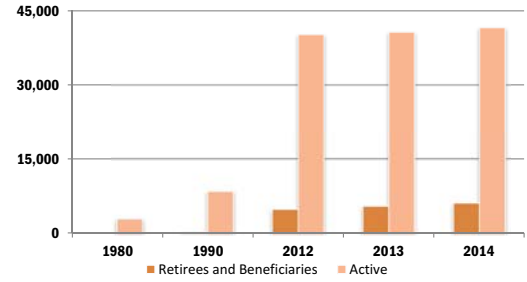
MEMBERSHIP

NJ State Employees' Deferred Compensation Plan

Fiscal year 2014 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, 2014, the active membership of the New Jersey State Employees' Deferred Compensation Plan totaled 41,607. There were 6,186 members receiving monthly installment payments.

The plan's net assets (participants' balances) were \$3,396,217,207 at the close of the fiscal year 2014.

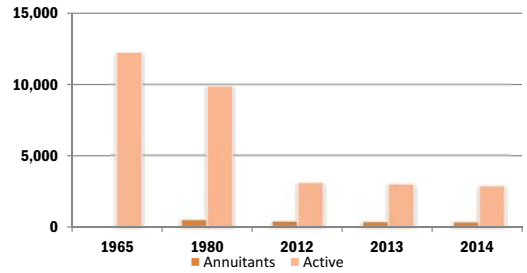


Supplemental Annuity Collective Trust

As of June 30, 2014, the active membership of the trust totaled 2,888. The unit value was \$86.4278, an increase of \$14.2634 from the June 30, 2013 value of \$72.1644.

There were 412 annuitants.

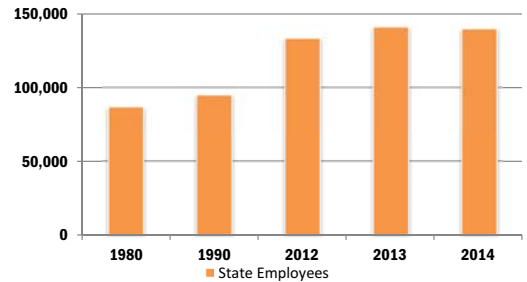
The trust's assets totaled \$210,012,611 at the close of the fiscal year 2014.



Unemployment Compensation and Temporary Disability Insurance

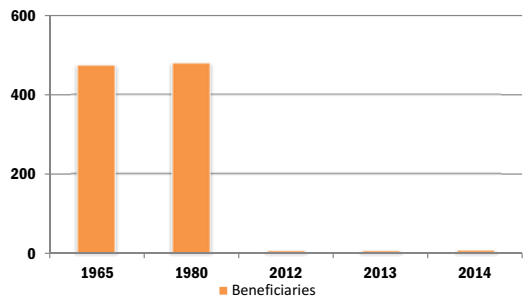
As of June 30, 2014, the Unemployment Compensation Program for State Employees covered as many as 122,491 persons, and the Division remitted \$4,376,874.78 on behalf of the State. There were 7,371 requests for unemployment benefits filed, and \$18,280,992 was paid to the employees found eligible.

During the same time period, the Temporary Disability Insurance Program covered 139,703 employees, and the Division remitted \$34,875,747.23 on behalf of the State. Claims paid totaled \$31,976,464.



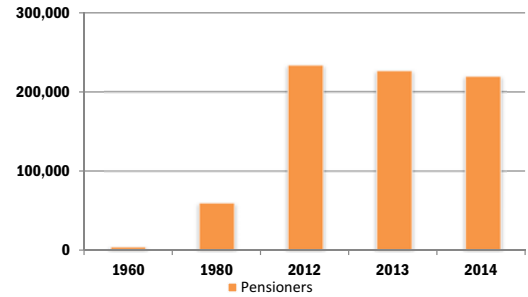
Central Pension Fund

As of June 30, 2014, there were 10 beneficiaries receiving annual pensions totaling \$212,040.



Pension Adjustment Expense

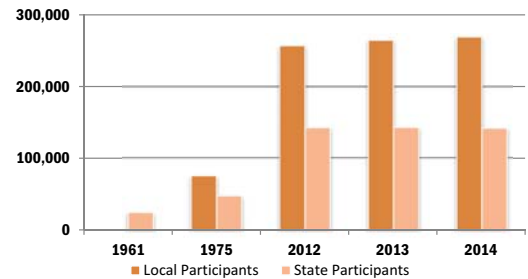
There were 219,917 pensioners who were paid \$866,703,527 during the fiscal year 2014.



State Health Benefits Program and School Employees' Health Benefits Program

As of June 30, 2014, there were 412,214 participants (active and retired) consisting of 142,460 State participants and 269,754 participants of 1,140 local participating employers.

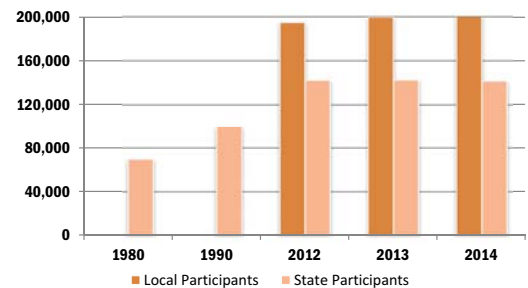
The State and state employee contributions were \$1,637,762,702 while payment made by local (including education) employers and employees was \$3,009,026,237.



Prescription Drug Plan

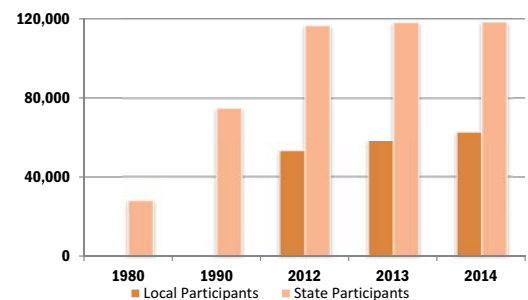
The Prescription Drug plan covered as many as 141,845 State participants and 202,565 local participants during the fiscal year 2014.

The State's contribution was \$453,777,288 while payment made by local (including education) employers was \$667,943,599.



Dental Expense Program

The Dental Expense Program covered as many as 118,504 eligible State participants and 63,034 local participants during the fiscal year 2014. The State of New Jersey as the employer expended \$36,765,149 for active participants while payment made by local (including education) employers was \$4,209,780.



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