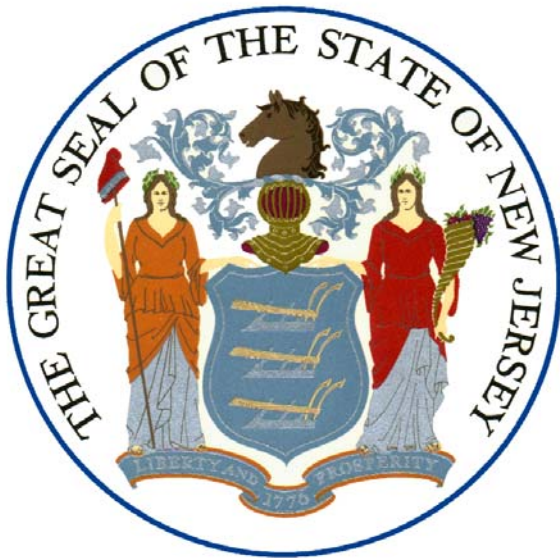


DIVISION OF PENSIONS AND BENEFITS

A Department of the State of New Jersey

COMPREHENSIVE ANNUAL FINANCIAL REPORT

*for the Fiscal Year Ended
June 30, 2013*



*Our mission is 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 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

58th COMPREHENSIVE ANNUAL FINANCIAL REPORT *For the Fiscal Year Ended June 30, 2013*

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

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
- DCRP** Defined Contribution Retirement Program
- ABP** Alternate Benefit Program
- POPF** Prison Officers' Pension Fund
- CPFPPF** 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
- SEHBP** School Employees' Health Benefits Program
- PDP** Prescription Drug Plan
- EDP** Employee Dental Plans
- Tax\$ave** NJ 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

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Secaucus, NJ 07096-1533

MILLIMAN

1550 Liberty Ridge Drive
Suite 200
Wayne, PA 19087-5572

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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, 2012

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) 292-7718
www.state.nj.us/treasury/pensions

Mailing Address:
PO Box 295
Trenton, NJ 08625-0295
Location:
50 West State Street
Trenton, New Jersey

LETTER OF TRANSMITTAL

February 2014

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 58th Comprehensive Annual Financial Report (CAFR) of the New Jersey State-administered retirement systems and related benefit programs for the fiscal year ended June 30, 2013. 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, two health benefits programs for employees, retirees, and family members, and several other employee benefits programs. Over 792,986 members enjoy the benefits of the various pension systems administered by the Division, and over 882,000 lives are covered in the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). In addition to the State, 1,793 local public employers participate in the retirement systems, and 1,126 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 of last year for Excellence in Financial Reporting. A copy of the Certificate of Achievement is included in this CAFR.

LETTER OF TRANSMITTAL

MAJOR INITIATIVES

Pension and health benefit reform legislation enacted in the first term continued to be a driving force for the Division in 2013.

Pension reforms enacted pursuant to Chapter 78, P.L. 2011 included provisions creating special Pension Plan Design Committees that will have the discretionary authority to modify certain plan design features. A total of six Pension Plan Design Committees can be formed: two each for the PERS and PFRS, representing the State and local components of these plans, and one committee each for the TPAF and the SPRS. The State House Commission will assume the design committee responsibilities for the JRS. Members of the committees cannot be appointed to the Design Committees until the pension plan, or part of the plan, attains the target funded ratio (TFR). Three plans, or parts of the plans, attained the 75 percent TFR in fiscal year 2012, as reflected in the revised July 1, 2010 actuarial reports of the pension plans. These plans were: PERS-Local, PFRS-Local and the SPRS. As a result, these three formed and held their first meetings but took no action based on 30 year projections provided indicating that implementation of any benefit improvements including reactivation of the COLA is not possible at this time or the foreseeable future because any changes would result in the diminishment of the funding ratio below the TFR.

Pursuant to a November amendment to Article VI, Section VI, Paragraph 6 of the New Jersey Constitution, employee pension and health benefit contribution rates for members of the Judicial Retirement System (JRS) increased as of the first State Biweekly Pay Period of 2013. The increase in the JRS pension contributions was calculated as follows:

- For JRS members enrolled into the retirement system on or after January 1, 1996, the pension contribution rate increased to 5.56% of all compensation.
- For JRS members enrolled into the retirement system before January 1, 1996, the pension contribution was calculated using one rate for the compensation of the member's current position as of January 18, 1982, and a separate rate for the balance of the member's compensation in excess of the January 18, 1982, compensation. The employee contribution rates for this group were 2.56% for the compensation as of January 18, 1982, and 5.56% for any compensation exceeding the January 18, 1982, compensation.

Chapter 78 calls for JRS employee pension contribution rates to increase by 1.28% a year over 7 years until a total additional pension contribution rate of 9% is reached as of July 2017 — making the full contribution rate 12% for JRS members enrolled into the retirement system on or after January 1, 1996. The 2.56% contribution rate for compensation as of January 18, 1982 and 5.56% contribution rate for any compensation exceeding the January 18, 1982 compensation represents the second year of phased-in rate increases under the provisions of Chapter 1. The third year contribution rate increase of an additional 1.28% will begin with the first payroll of July 2013.

In other developments, the Division, in cooperation with the Division of Purchase and Property, initiated a Medical Plan RFP with a contract effective date of January 1, 2013. In conjunction with the RFP, the Joint Plan Design Committees for the SHBP and the SEHBP established two additional PPO plans and two additional HMO plans for each benefit administrator plus four high deductible health plans. Over 7,000 members elected one of the new plans and of that number, 250 elected the high deductible plans.

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, effective October 1, 2012, all new retirement applications were required to be filed through our Member Benefits Online System (MBOS). An Online Guide to Retirement was launched on our Web site on January 18, 2013 to help prospective applicants through this process.

The existing hardware and software for the Interactive Voice Response System (IVR) was replaced and the new system shares hardware and software resources with the Department of Labor. The IVR system provides members and employers with the ability to obtain pension and health plan information, and process a loan and other transactions over the telephone. As result of this major initiative, in early 2013 the IVR became the point of entry for members calling the Division. From there a number of self-service options are available, or, if the member chooses, they will be transferred to the call center to speak with a counselor.

LETTER OF TRANSMITTAL

The WEB Enhancement Project involved two components; 1) an upgrade to the Division's static web pages, and 2) an upgrade to the inquiry and transactional web pages of Employer Pension Information Connection (EPIC) and Member Benefits Online System (MBOS). This project has resulted in the enhancement of 26 sub-application components.

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 37 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, 2013. 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 2013 investment returns on pension funds were +11.78 percent. When combined with the returns for previous years, the annualized returns over the past three, five and ten-year periods were +10.59 percent, +5.32 percent, and +7.26 percent, respectively.

FUNDING

A fully funded system that has assets sufficient to meet the retirement benefit schedules is one that instills confidence and trust. While employer funding obligations have been difficult to meet over the past several years due to conflicting budgetary priorities, the enactment of Chapter 1, P.L. 2010 and Chapter 78, P.L. 2011 have charted a long term path which is projected to result in improved funded levels over a thirty year period.

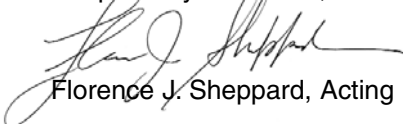
PROFESSIONAL SERVICES

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 91 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,



Florence J. Sheppard, Acting Director

ALL IN A YEAR'S WORK...

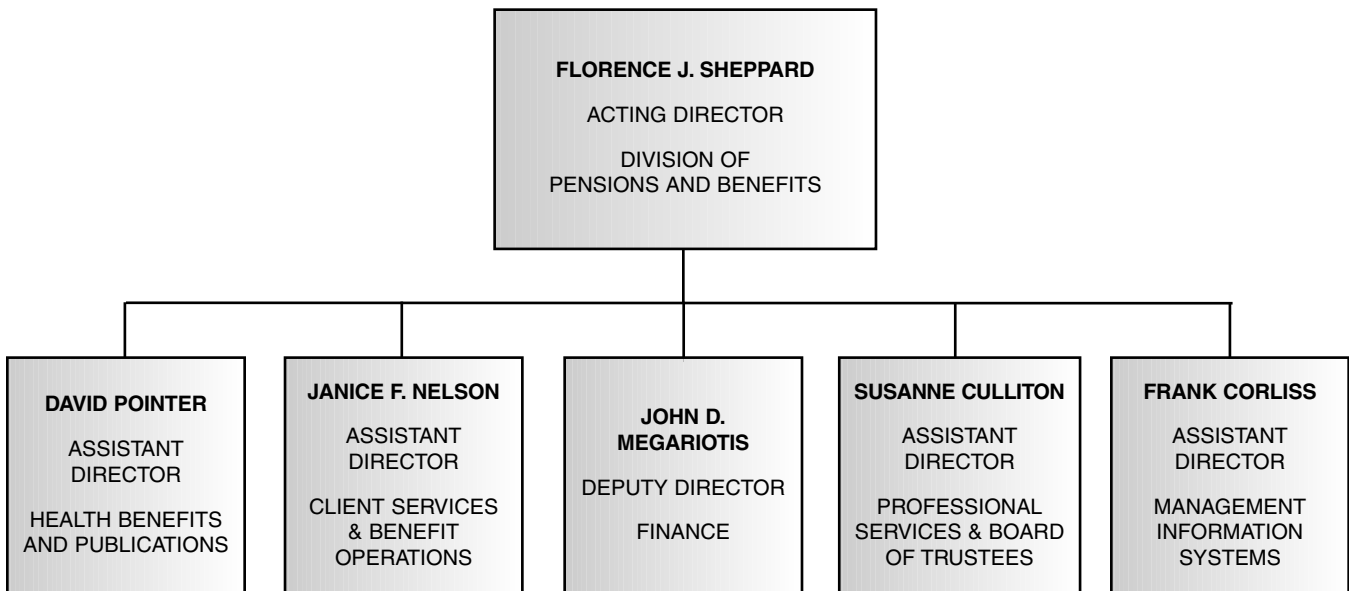
- There are **415,691 ACTIVE MEMBERS** in the combined retirement systems.
- There are **1,793 PARTICIPATING EMPLOYERS** in the combined retirement systems; **13 NEW EMPLOYERS** began participating this year.
- There are **422,793 INDIVIDUAL RETIREMENT SYSTEM MEMBER ACCOUNTS** being maintained; **11,402 MEMBER ACCOUNTS** were audited internally.
- A total of **293,337 RETIREES AND BENEFICIARIES** received monthly pensions totaling in excess of **\$8.8 BILLION** annually.
- Over **37,137 BENEFICIARY CLAIMS** were processed. Premiums in excess of **\$234 MILLION** were paid to the insurance carrier on behalf of active and retired members.
- Over **930,000 TELEPHONE CALLS** calls were handled by the Interactive Voice Response System (IVR). Phone representatives handled over 315,000 calls.
- **15,992 PERSONAL INTERVIEWS** were conducted by pension counselors.
- **160 SEMINARS AND WEBINARS** were conducted for over **3,420 MEMBERS**.
- **11,221 SERVICE PURCHASE REQUESTS** were processed.
- **29,107 NEW ENROLLMENTS OR TRANSFERS** were processed in our retirement systems.
- There were **9,230 WITHDRAWALS** from the retirement systems.
- **15,208 MEMBERS RETIRED**.
- Over **107,525 PENSION LOANS** totaling **\$549,711,702** were processed.
- State and local membership in the State Health Benefits Program and School Employees' Health Benefits Program was **408,575 MEMBERS** with **881,626 LIVES COVERED**.
- A total of over **\$5.5 BILLION IN PREMIUMS** was collected from State and local State Health Benefits Program employers, School Employees' Health Benefits Program employers, and combined employees. **1,126 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 Benefit Operations*;
David Pointer, *Assistant Director, Health Benefits and Publications*



ORGANIZATION



CHIEFS AND MANAGERS

Seated, First Row (left to right): Mary Ann Ryan – *Client Services*; Joseph Zisa – *Defined Benefit and Contribution Plans*; Wendy Jamison – *Boards of Trustees*;

Second Row (left to right): Peter Mullings - *Administrative Services*; Timothy McMullen – *Budget and Compliance*; Michael Weik – *Operations*; Francis Peterson — *Financial Reporting, Payments, and Collections*;

Absent: Mark Schwedes - *Enrollments and Purchases*

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

ORGANIZATION

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 \$81.9 billion and include over 792,986 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 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.

ORGANIZATION

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: Suzanna Buriani-DeSantis
(l to r) Thomas Bruno
Leon Flanagan, *Chairperson*
Susanne Culliton, *State Treasurer's Representative*

Standing: Ronald Winters
(l to r) Jackie Bussanich, *Administrative Assistant*
Benjamin (Max) Hurst
William O'Brien
Kellie Kiefer-Pushko, *Deputy Attorney General*
Edward (Ned) Thomson, III
Hank Schwedes, *Board Secretary*



TEACHERS' PENSION AND ANNUITY FUND

Seated: Martha Liebman
(l to r) James Joyner, *Chairperson*

Standing: H. O'Neill Williams
(l to r) Erland Nordstrom
Susanne Culliton, *State Treasurer's Representative*
Paul Orihel
Mary Ellen Rathbun, *Board Secretary*
Robert Kelly, *Deputy Attorney General*
Jackie Bussanich, *Administrative Assistant*



POLICE AND FIREMEN'S RETIREMENT SYSTEM

Seated: Vincent Foti
(l to r) Susanne Culliton, *State Treasurer's Representative*
Wayne Hall, *Chairperson*
Wendy Jamison, *Board Secretary*

Standing: Marty Barrett
(l to r) Tim Colacci
Lisa Pointer, *Administrative Assistant*
Frank Leake
Kellie Kiefer-Pushko, *Deputy Attorney General*
John Sierchio
Michael Postorino

Absent: Laurel Brennan
Richard Loccke

ORGANIZATION — BOARDS OF TRUSTEES



STATE POLICE RETIREMENT SYSTEM

Seated: Major Patrick Callahan
(l to r) Wendy Jamison, *Board Secretary*
Major Brian McPherson, *Chairperson*

Standing: Lisa Pointer, *Administrative Assistant*
(l to r) Susanne Culliton, *State Treasurer's Representative*
Diane Weeden, *Deputy Attorney General*

Absent: Jack Sayers

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST COUNCIL

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

DEFINED CONTRIBUTION RETIREMENT PROGRAM BOARD

Joseph Zisa, *Chairperson, Representing Florence J. Sheppard, Acting Director, Division of Pensions and Benefits*
Sonia Rivera-Perez, *Representing Charlene Holzbaur, Director, Office of Management and Budget*
Felix Schirripa, *Representing Kenneth E. Kobylowski, Commissioner, Department of Banking and 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 and Insurance*
Robert Czech, *Chair, Civil Service Commission*
Florence J. Sheppard, *Secretary*
Patrick Nowlan, *State Employees' Representative of the AFL-CIO*
Dudley Burdge, *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, *Acting Commissioner, Department of Banking and 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 50, P.L. 2013

Effective Date: This law takes effect on the 90th day after enactment (August 4, 2013).

Description: This law requires, in certain circumstances, health insurers (health, hospital and medical service corporations, commercial individual and group health insurers; health maintenance organizations, health benefits plans issued pursuant to the New Jersey Individual Health Coverage and Small Employer Health Benefits Programs, the State Health Benefits Program, and the School Employees' Health Benefits Program) that provide coverage for prescription eye drops, to provide health benefits coverage for expenses incurred for a refill of prescription eye drops in accordance with Guidance for Early Refill Edits on Topical Ophthalmic Products provided to Medicare Part D plan sponsors by the Centers for Medicare and Medicaid Services.

The requirement to provide this coverage is conditioned on two factors: (1) the prescribing health care practitioner indicates on the original prescription that additional quantities of the prescription eye drops are needed; and (2) the refill requested does not exceed the number of additional quantities indicated on the original prescription by the prescribing health care practitioner.

The Centers for Medicaid and Medicare Services issued guidance on topical ophthalmics to prevent the unintended interruption of drug therapy in situations in which patients legitimately need earlier refills of prescription eye drops. While the guidance acknowledges that health insurers monitor appropriate refill periods as part of utilization management, the guidance also recognizes that the self-administration of prescription eye drops may involve some reasonable amount of waste and that earlier refills may be appropriate in some circumstances.

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

SCOPE OF OPERATIONS

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.

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

SCOPE OF OPERATIONS

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.

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.

SCOPE OF OPERATIONS

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 deduct-

ed 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).

MEMBERSHIP

ACTIVE MEMBERSHIP	RETIREMENT SYSTEM	2012	2013
	Public Employees' Retirement System	285,710*	279,145*
	Teachers' Pension & Annuity Fund	152,158*	153,458*
	Police & Firemen's Retirement System	41,518*	41,346*
	State Police Retirement System	2,776*	2,513*
	Judicial Retirement System	404	417
	Alternate Benefit Program	22,225	23,165
	Prison Officers' Pension Fund	0	0
	Consolidated Police & Firemen's Pension Fund	0	0
	Central Pension Fund	NA	NA
	Total	504,791	500,044
<p><i>*Both the 2012 and 2013 figures represent the total number of Active and Inactive accounts.</i></p> <p><i>The 2013 Inactive (noncontributing) accounts are as follows: PERS Inactive — 49,174, TPAF Inactive — 13,426, PFRS Inactive — 2,030, SPRS Inactive — 14.</i></p>			
RETIRED MEMBERSHIP & BENEFICIARIES	RETIREMENT SYSTEM	2012	2013
	Public Employees' Retirement System	152,147	156,099
	Teachers' Pension & Annuity Fund	89,276	91,701
	Police & Firemen's Retirement System	39,413	41,020
	State Police Retirement System	3,019	3,246
	Judicial Retirement System	561	575
	Alternate Benefit Program	NA	NA
	Prison Officers' Pension Fund	133	117
	Consolidated Police & Firemen's Pension Fund	224	175
	Central Pension Fund	9	9
	Total	284,782*	292,942*
<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	2012	2013
	State Health Benefits Program and School Employees' Health Benefits Program	400,387	408,575
	Prescription Drug Plan	337,743	342,730
	Dental Expense Program	170,017	176,512

MEMBERSHIP

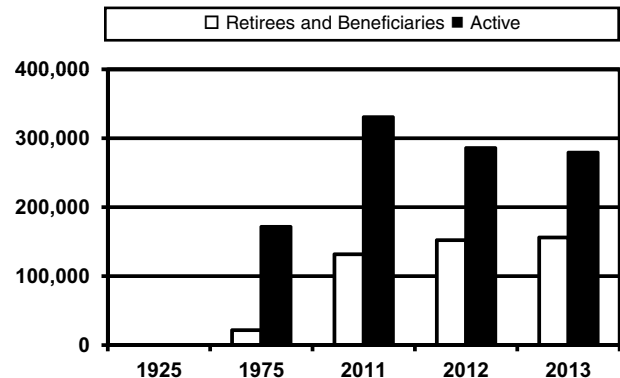
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

As of June 30, 2013, the active membership of the system totaled 279,145. There were 156,099 retirees and beneficiaries receiving annual pensions totaling \$2,915,913,119*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$124,961,201.

The system's assets totaled \$28,788,159,403 at the close of the fiscal year 2013.

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



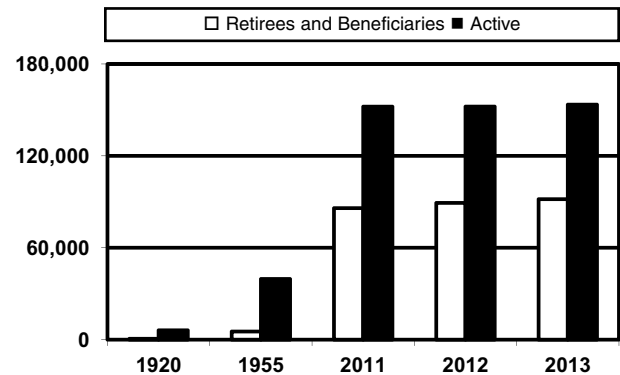
TEACHERS' PENSION AND ANNUITY FUND

As of June 30, 2013, the active membership of the fund totaled 153,458. There were 91,701 retirees and beneficiaries receiving annual pensions totaling \$3,601,020,357*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$72,089,302.

The fund's assets totaled \$26,981,308,676 at the close of the fiscal year 2013.

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



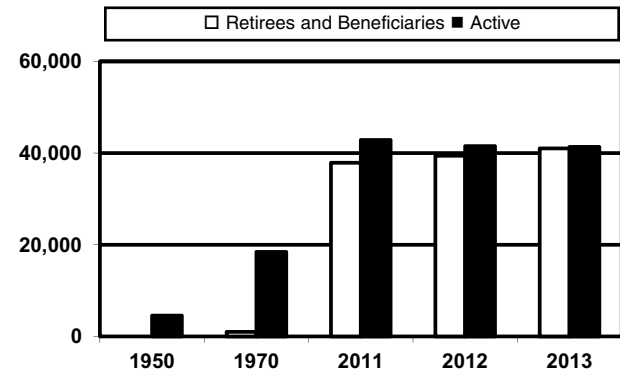
POLICE AND FIREMEN'S RETIREMENT SYSTEM

As of June 30, 2013, the active membership of the system totaled 41,346. There were 41,020 retirees and beneficiaries receiving annual pensions totaling \$1,935,384,557*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$34,084,179.

The system's assets totaled \$23,104,351,943 at the close of the fiscal year 2013.

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



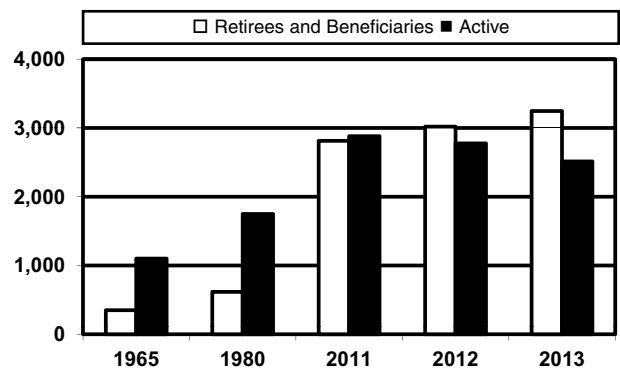
STATE POLICE RETIREMENT SYSTEM

As of June 30, 2013, the active membership of the system totaled 2,513. There were 3,246 retirees and beneficiaries receiving annual pensions totaling \$180,223,667*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$2,195,047.

The system's assets totaled \$1,842,483,768 at the close of the fiscal year 2013.

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

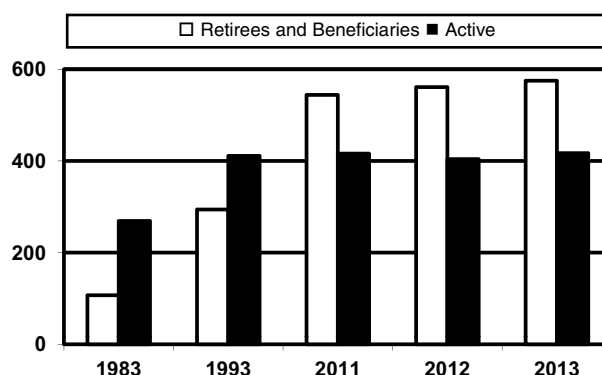


MEMBERSHIP

JUDICIAL RETIREMENT SYSTEM

As of June 30, 2013, the active membership of the system totaled 417. There were 575 retirees and beneficiaries receiving annual pensions totaling \$47,019,641.

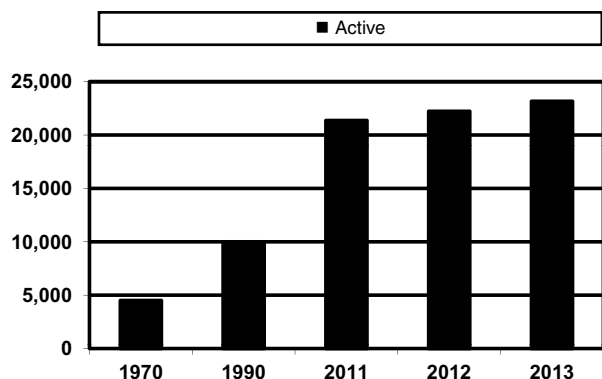
The system's assets totaled \$234,681,070 at the close of the fiscal year 2013.



ALTERNATE BENEFIT PROGRAM

As of June 30, 2013, the State paid \$158,149,329 on behalf of 23,165 participants to the carriers underwriting this program.

Beneficiaries of deceased active and retired members received \$17,613,359 in lump sum death benefits.



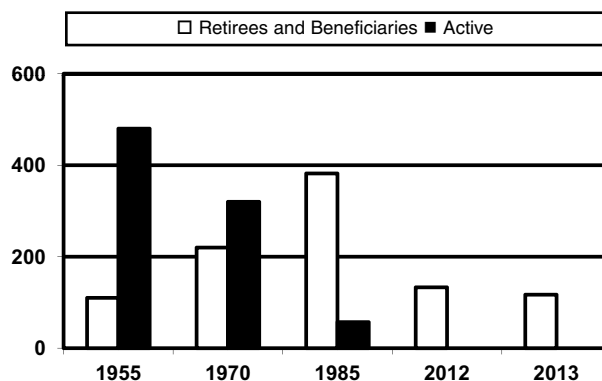
PRISON OFFICERS' PENSION FUND

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, 2013, the active membership of the fund totaled zero. There were 117 retirees and beneficiaries receiving annual pensions totaling \$1,763,964.

The fund's assets totaled \$8,318,421 at the close of the fiscal year 2013.

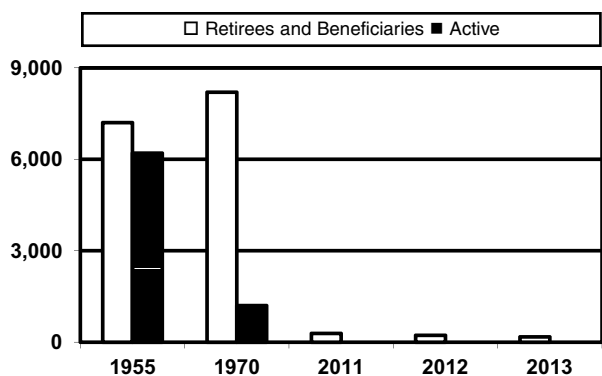


CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

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

As of June 30, 2013, the active membership of the fund totaled zero. There were 175 retirees and beneficiaries receiving annual pensions totaling \$3,882,659.

The fund's assets totaled \$4,668,454 at the close of the fiscal year 2013.



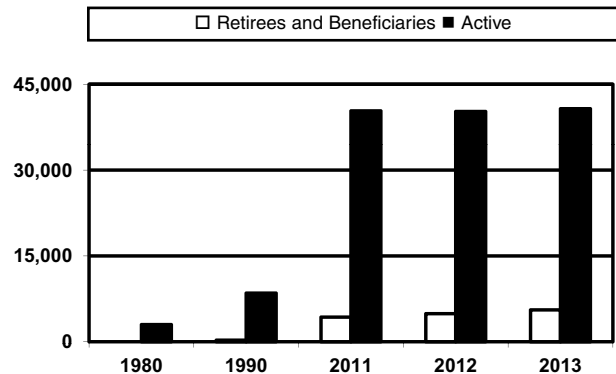
MEMBERSHIP

NJ STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

Fiscal year 2013 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, 2013, the active membership of the New Jersey State Employees' Deferred Compensation Plan totaled 40,719. There were 5,564 members receiving monthly installment payments.

The plan's net assets (participants' balances) were \$2,940,893,014 at the close of the fiscal year 2013.

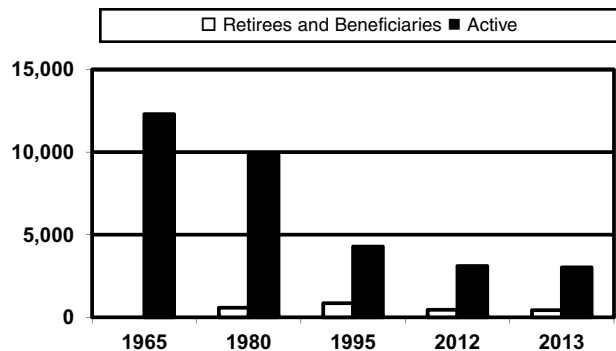


SUPPLEMENTAL ANNUITY COLLECTIVE TRUST

As of June 30, 2013, the active membership of the trust totaled 3,022. The unit value was \$72.1644, an increase of \$10.0324 from the June 30, 2012 value of \$62.5365.

There were 432 annuitants.

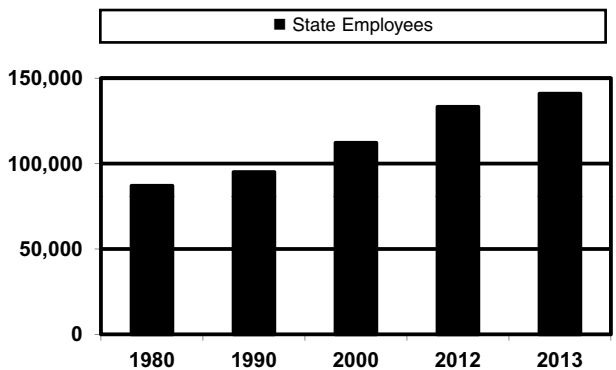
The trust's assets totaled \$180,708,213 at the close of the fiscal year 2013.



UNEMPLOYMENT COMPENSATION AND TEMPORARY DISABILITY INSURANCE

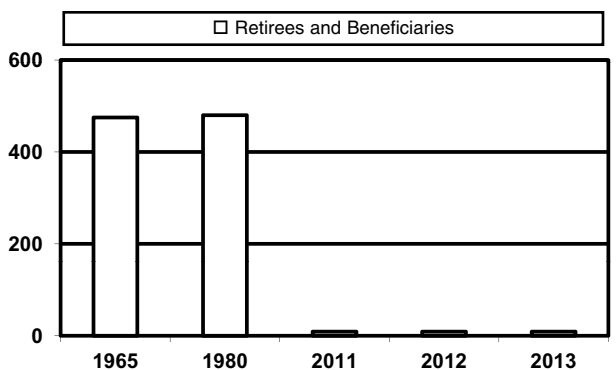
As of June 30, 2013, the Unemployment Compensation Program for State employees covered as many as 122,835 persons, and the Division remitted \$4,348,908.41 on behalf of the State. There were 8,323 requests for unemployment benefits filed, and \$22,976,638 was paid to the employees found eligible.

During the same period, the Temporary Disability Insurance Program covered 140,899 employees, and the Division remitted \$34,544,708.82 on behalf of the State. Claims paid totaled \$33,724,267.



CENTRAL PENSION FUND

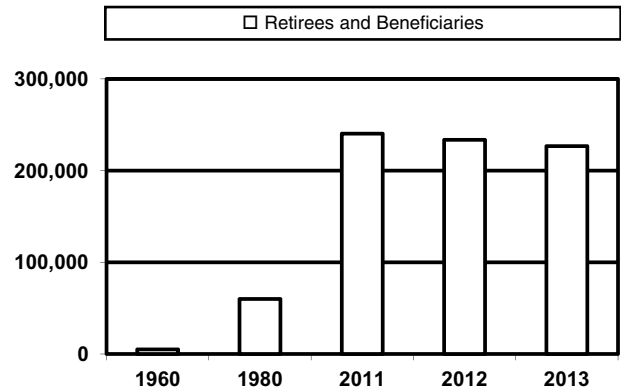
As of June 30, 2013, there were 9 beneficiaries receiving annual pensions totaling \$189,540.



MEMBERSHIP

PENSION ADJUSTMENT EXPENSE

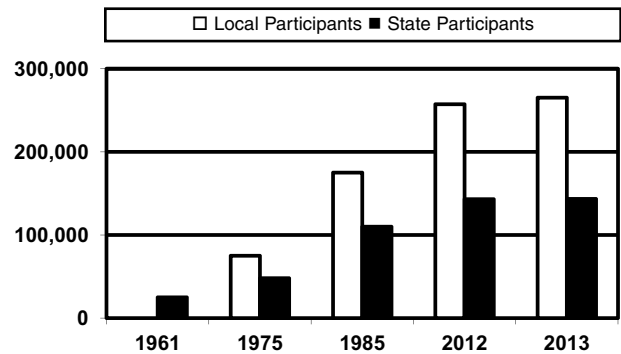
There were 226,712 pensioners who were paid \$899,973,325 during the fiscal year 2013.



STATE HEALTH BENEFITS PROGRAM AND SCHOOL EMPLOYEES' HEALTH BENEFITS PROGRAM

As of June 30, 2013, there were 408,575 covered participants (active and retired) consisting of 143,425 State participants and 265,150 participants of 1,126 local participating employers.

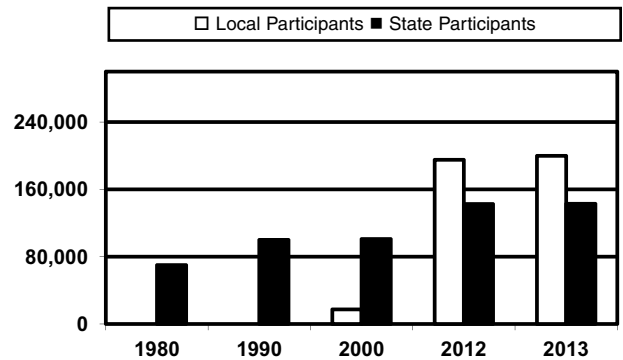
The State and state employee contributions were \$1,479,211,068 while payment made by local (including education) employers and employees was \$2,827,806,042.



PRESCRIPTION DRUG PLAN

The Prescription Drug Plan covered as many as 142,894 State participants and 199,836 local participants during fiscal year 2013.

The State's contribution was \$420,615,439 while payment made by local (including education) employers was \$650,149,663.



DENTAL EXPENSE PROGRAM

The Dental Expense Program covered as many as 118,224 eligible State participants and 58,288 local participants during fiscal year 2013. The State of New Jersey as the employer expended \$33,594,744 for active participants while payment made by local (including education) employers was \$3,491,411.

