

DEPARTMENT OF
THE TREASURY
Peter R. Lawrance
Acting State Treasurer

DIVISION OF PENSIONS
AND BENEFITS
Thomas P. Bryan
Director

JUDICIAL RETIREMENT
SYSTEM OF NEW JERSEY

STATE HOUSE COMMISSION
as of June 30, 2001

DONALD T. DiFRANCESCO
Acting Governor

PETER R. LAWRANCE
Acting State Treasurer

Senator Walter J. Kavanaugh

Senator John A. Lynch

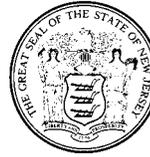
Assemblyman Anthony Impreveduto

Assemblyman Leonard Lance

Charlene Holzbaur
Director and State Comptroller,
Office of Management and Budget,
Department of the Treasury

THOMAS P. BRYAN
Secretary

BUCK CONSULTANTS, INC.
Actuaries and Consultants



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

TO THE HONORABLE
DONALD T. DiFRANCESCO
ACTING GOVERNOR of the STATE OF NEW JERSEY

Dear Acting Governor DiFrancesco:

The Commission for the

JUDICIAL RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2001 Annual Report
in accordance with the provisions of N.J.S.A. 43:6A-29.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas P. Bryan".

THOMAS P. BRYAN
Secretary

SIGNIFICANT LEGISLATION

CHAPTER 5, PUBLIC LAW OF 2001

This law revises New Jersey's "Administrative Procedure Act" (APA) to enhance access to the rule-making process. The provisions of the law include additional requirements for agencies involved in the rule-making process. These include the publication of a quarterly calendar of anticipated rule-making activities for the next six months, or in the absence of a calendar, a 60 day comment period instead of 30 days as well as a new "standard of clarity." The new law also requires four forms of notice of proposed rule-making, instead of two. These include a 30-day notice to the news media covering the State House Complex, an electronic notification through the Internet, publication in the New Jersey Register, and one additional means of notification such as an agency newsletter or direct mailing to interested parties.

This law was approved on January 16, 2001 and was effective on July 1, 2001.

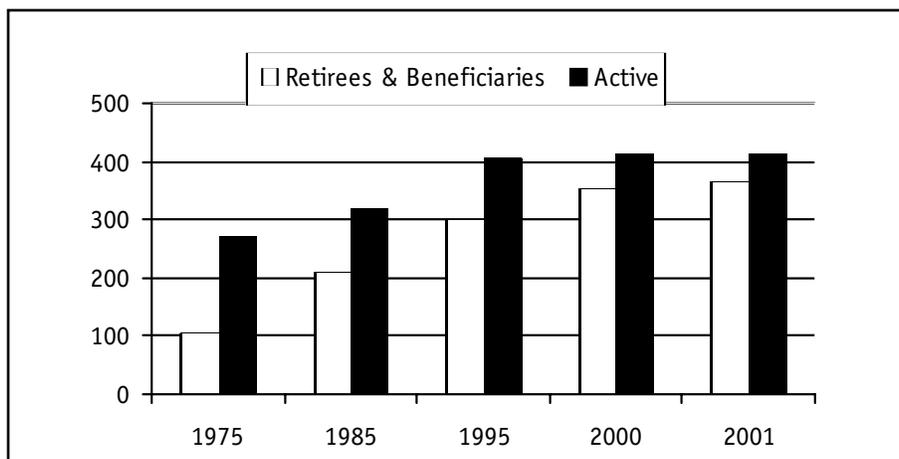
CHAPTER 74, PUBLIC LAW OF 2001

P.L.1997, c.205 enabled members of the Judicial Retirement System (JRS) to purchase optional contributory death benefit coverage. JRS members had one year from the effective date of that act to select such coverage. This law amends the statutes to give JRS members 90 days after the State House Commission approves any insurance contract or program for optional contributory death benefit coverage to select such coverage. This law also amends the statutes to provide that the coverage may exceed one and one-half times the compensation received by the member in the last year of creditable service.

This law was approved on April 30, 2001 and was effective immediately.

MEMBERSHIP

- As of June 30, 2001, the active membership of the System totaled 415.
- There were 366 retirees and beneficiaries receiving annual pensions totaling \$22,198,504. (This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act).
- Beneficiaries of 16 retired members received death benefits in the amount of \$757,833.
- The System's assets totaled \$358,472,638 at the close of the fiscal year 2001.



KPMG LLP
New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

Independent Auditors' Report

State House Commission
State of New Jersey
Judicial Retirement System

We have audited the accompanying statements of plan net assets of the State of New Jersey Judicial Retirement System as of June 30, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of New Jersey Judicial Retirement System as of June 30, 2001 and 2000, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information included in the schedule of funding progress and schedule of employer contributions is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in plan net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the State of New Jersey Judicial Retirement System. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

September 7, 2001

**JUDICIAL RETIREMENT SYSTEM
OF NEW JERSEY**

Statements of Plan Net Assets

June 30, 2001 and 2000

| | 2001 | 2000 |
|--|----------------|----------------|
| Assets: | | |
| Cash | \$ 1,500,722 | \$ 1,405,866 |
| Investments, at fair value: | | |
| Cash Management Fund | 4,854,381 | 11,794,360 |
| Common Pension Fund A | 170,161,193 | 199,134,755 |
| Common Pension Fund B | 81,463,351 | 81,018,475 |
| Common Pension Fund D | 66,915,289 | 90,396,627 |
| Mortgages | 30,791,492 | 33,043,243 |
| Total investments | 354,185,706 | 415,387,460 |
| Receivables: | | |
| Contributions: | | |
| Members | 59,959 | 44,167 |
| Accrued interest and dividends | 1,936,623 | 2,006,360 |
| Members' loans | 621,744 | 556,889 |
| Other | 167,884 | — |
| Total receivables | 2,786,210 | 2,607,416 |
| Total assets | 358,472,638 | 419,400,742 |
| Liabilities: | | |
| Accounts payable and accrued expenses | 263,380 | 33,251 |
| Retirement benefits payable | 1,918,904 | 1,763,904 |
| Total liabilities | 2,182,284 | 1,797,155 |
| Net assets held in trust for pension benefits | \$ 356,290,354 | \$ 417,603,587 |

See schedule of funding progress on page 11.

See accompanying notes to financial statements.

**JUDICIAL RETIREMENT SYSTEM
OF NEW JERSEY**
Statements of Changes in Plan Net Assets
Years ended June 30, 2001 and 2000

| | 2001 | 2000 |
|---|----------------|----------------|
| Revenues and additions: | | |
| Contributions: | | |
| Members | \$ 1,818,915 | \$ 1,384,587 |
| Employers | 173,556 | 223,946 |
| Total contributions | 1,992,471 | 1,608,533 |
| Investment income: | | |
| Net (depreciation) appreciation in fair value of investments | (52,329,714) | 33,099,672 |
| Interest | 9,985,036 | 10,089,113 |
| Dividends | 1,980,716 | 2,148,061 |
| | (40,363,962) | 45,336,846 |
| Less investment expense | 28,407 | 32,427 |
| Net investment income | (40,392,369) | 45,304,419 |
| Total revenues and additions | (38,399,898) | 46,912,952 |
| Expenditures and deductions: | | |
| Benefits | 22,869,542 | 20,709,935 |
| Refunds of contributions | 10,715 | 42,111 |
| Administrative expenses | 33,078 | 43,174 |
| Total expenditures and deductions | 22,913,335 | 20,795,220 |
| Net (decrease) increase | (61,313,233) | 26,117,732 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | 417,603,587 | 391,485,855 |
| End of year | \$ 356,290,354 | \$ 417,603,587 |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements
June 30, 2001 and 2000

(1) DESCRIPTION OF THE SYSTEM

The State of New Jersey Judicial Retirement System (the System) is a single-employer contributory defined benefit plan which was established as of June 1, 1973, under the provisions of N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The System is included along with other state-administered pension trust and agency funds in the general purpose financial statements of the State of New Jersey.

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for all members of the state judiciary in the State of New Jersey. The System's State House Commission is primarily responsible for its administration.

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

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The System provides retirement benefits as well as death and disability benefits. Retirement benefits for age and years of service are as follows:

| <u>AGE</u> | <u>YEARS OF JUDICIAL SERVICE</u> | <u>BENEFIT AS PERCENTAGE OF FINAL SALARY</u> |
|------------|--|--|
| 70 | 10 | 75% |
| 65 | 15 | 75 |
| 60 | 20 | 75 |

| <u>JUDICIAL AGE</u> | <u>YEARS OF JUDICIAL SERVICE</u> | <u>YEARS OF PUBLIC AND JUDICIAL SERVICE</u> | <u>BENEFIT AS A PERCENTAGE OF FINAL SALARY</u> |
|-------------------------|--|---|--|
| 65 | 5 | 15 | 50% |
| 60 | 5 | 20 | 50 |

Retirement benefits are also available at age 60 with five years of judicial service and 15 years in the aggregate of public service, or at age 60 while serving as a judge with the benefit determined to be 2% of final salary, as defined, for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years. Deferred and early retirement benefits are also available.

STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM
Notes to Financial Statements, Continued

(1) DESCRIPTION OF THE SYSTEM, Continued

Membership and Contributing Employers

Membership in the System consisted of the following at June 30:

| | 2000 | 1999 |
|--|------|------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 362 | 343 |
| Active members: | | |
| Vested | 196 | 210 |
| Non-vested | 218 | 211 |
| Total active members | 414 | 421 |
| Total | 776 | 764 |

The State of New Jersey is the only contributing employer of this System.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting and conform to the provisions of Governmental Accounting Standards Board (GASB) Statements No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." Plan assets and liabilities are recorded at fair value. Employer contributions are recognized when payable to the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Investment Valuation

Investments, including short-term investments (State of New Jersey Cash Management Funds), are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The State of New Jersey Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions and Benefits. All investments must conform to standards set by state law.

The State of New Jersey Division of Investment administers three common pension funds which are utilized by the System. A brief description of each common pension fund is as follows:

Common Pension Fund A - The operations of Common Pension Fund A are governed by the provisions of Article 62 of the State of New Jersey Investment Council regulations for the purpose of investing in corporate common stocks, securities convertible into corporate common stocks or covered call options.

STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM
Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Common Pension Fund B - The operations of Common Pension Fund B are governed by the provisions of Article 63 of the State of New Jersey Investment Council regulations for the purpose of investing in fixed income and debt securities.

Common Pension Fund D - The operations of Common Pension Fund D are governed by the provisions of Article 67 of the State of New Jersey Investment Council regulations for the purpose of investing in international debt and equity securities, currencies, currency futures, and options.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Funds, Common Pension Fund A, Common Pension Fund B and Common Pension Fund D. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the System, through the State Treasurer, and custodian banks as agents for the System. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of custodial risk assumed by the System. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. As of June 30, 2001 and 2000, all investments held by the System (other than mortgages and the State of New Jersey Cash Management Funds which are not categorized) are classified as Category 1.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the System. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the System. The custodian banks as agents for the System maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the System.

Securities not maintained by the Federal Reserve Banks or DTC are in the name of a designated nominee representing the securities of the System, which establishes the System's unconditional right to the securities.

Member Loans

Chapter 25, P.L. of 1997 which was enacted on March 7, 1997, allows active contributing members to borrow against their accumulated deductions in the System. Any member who has at least three years of service in the System may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4%. Members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any benefits or continuing their monthly loan payment schedule into retirement.

STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM
Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Administrative Expenses

The System is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the System to the State of New Jersey, Department of the Treasury and are included in the accompanying statements of changes in plan net assets.

Cash and Cash Equivalents

GASB Statement No. 3 also requires that deposits held in financial institutions be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all state bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2001, which include funding for the July 1, 2001 retirement payroll, are designated Category 3.

The categorization of cash and cash equivalents for all state funds, including the pension trust funds, can be found in the notes to the general purpose financial statements of the State of New Jersey.

(3) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members enrolled on January 1, 1996 or after contribute at 3% on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on 3% of the difference between their current salary and the salary of the position on January 18, 1982. The State of New Jersey is required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of excess valuation assets to offset the required normal contributions of the State of New Jersey. Through fiscal year 2002, excess assets may be used to the extent possible to offset normal contributions. Thereafter, a certain percentage of available excess assets may be used as specified in the legislation.

As a result of Chapter 115, P.L. 1997, the State of New Jersey was not required to make a contribution to the System for the years ended June 30, 2001 and 2000 as excess valuation assets were available to fund the actuarially determined normal cost.

(4) RESERVES

The System maintains the following legally required reserves:

Members' Annuity Savings Fund (2001 - \$17,485,352; 2000 - \$15,147,953)

The Members' Annuity Savings Fund is credited with all contributions made by active members of the System.

STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM
Notes to Financial Statements, Continued

(4) RESERVES, Continued

Contingent Reserve Fund (2001 - \$218,719,193; 2000 - \$292,708,126)

The Contingent Reserve Fund is credited with the contributions of the State of New Jersey. Interest earnings, after crediting the Members' Annuity Savings Fund and the Retirement Reserve Fund, as required, are also credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund (2001 - \$120,085,809; 2000 - \$109,747,508)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, including cost-of-living benefits, are paid. Upon retirement of a member, accumulated contributions together with accumulated interest are transferred to the Retirement Reserve Fund from the Members' Annuity Savings Fund. Any reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.75% for 2001 and 2000) is credited to the Retirement Reserve Fund.

(5) INCOME TAX STATUS

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the System is a qualified plan as described in Section 401(a) of the Internal Revenue Code.

STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM
 Required Supplementary Information
 Schedule of Funding Progress

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS (a) | ACTUARIAL ACCRUED LIABILITY (b) | UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a) | FUNDED RATIO (a / b) | COVERED PAYROLL (c) | UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL ((b - a) / c) |
|--------------------------------|--|--|--|----------------------------|---------------------------|--|
| June 30, 1995 | \$ 163,907,007 | \$ 255,572,086 | \$ 91,665,079 | 64.1% | \$ 40,041,000 | 228.9% |
| June 30, 1996 | 283,199,734 | 283,199,734 | — | 100.0% | 47,587,950 | 0.0% |
| June 30, 1997 | 317,289,094 | 295,150,638 | (22,138,456) | 107.5% | 46,912,950 | (47.2%) |
| June 30, 1998 | 333,437,794 | 305,779,217 | (27,658,577) | 109.0% | 48,196,350 | (57.4%) |
| June 30, 1999 | 352,858,160 | 313,873,659 | (38,984,501) | 112.4% | 48,886,350 | (79.7%) |
| June 30, 2000 | 374,486,433 | 350,920,345 | (23,566,088) | 106.7% | 55,514,214 | (42.5%) |

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2000 and 1999 actuarial valuations included the following:

| | June 30, 2000 | June 30, 1999 |
|-------------------------------|--------------------------------|--------------------------------|
| Actuarial cost method | Projected unit credit | Projected unit credit |
| Asset valuation method | 5 year average of market value | 5 year average of market value |
| Amortization method | Level dollar, closed | Level dollar, closed |
| Remaining amortization period | 32 years | 33 years |
| Actuarial assumptions: | | |
| Interest rate | 8.75% | 8.75% |
| Salary range | 5.95% | 5.95% |
| Cost-of-living adjustments | 2.40% | 2.40% |

STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM
 Required Supplementary Information, Continued
 Schedule of Employer Contributions

| YEAR ENDED JUNE 30, | ANNUAL REQUIRED CONTRIBUTION | EMPLOYER CONTRIBUTIONS ⁽¹⁾ | PERCENTAGE CONTRIBUTED |
|---------------------------|------------------------------------|--|---------------------------|
| 1997 | \$ 18,406,865 | \$ 110,483,753 ⁽²⁾ | 600.2% |
| 1998 | 14,658,095 | 13,478,708 | 92.0% |
| 1999 | 13,416,851 | — | 0.0% |
| 2000 | 13,407,153 | — | 0.0% |
| 2001 | 12,816,557 | — | 0.0% |

Notes to Schedule:

- (1) Employer contributions exclude contributions received from other pension funds for certain judges who transferred their eligible prior service credit to the Judicial Retirement System.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund required employer contributions.

- (2) For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997), authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

**JUDICIAL RETIREMENT SYSTEM
OF NEW JERSEY**
Schedule of Changes in Plan Net Assets by Fund
Year ended June 30, 2001

| | MEMBERS ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND | CONTINGENT RESERVE FUND | RETIREMENT RESERVE FUND | TOTAL |
|--|---|-------------------------------|-------------------------------|----------------|
| Additions: | | | | |
| Contributions: | | | | |
| Members | \$ 1,818,915 | — | — | \$ 1,818,915 |
| Employers | — | 173,556 | — | 173,556 |
| Total contributions | 1,818,915 | 173,556 | — | 1,992,471 |
| Distribution of net investment income | 1,412,527 | (51,407,803) | 9,602,907 | (40,392,369) |
| Total additions | 3,231,442 | (51,234,247) | 9,602,907 | (38,399,898) |
| Deductions: | | | | |
| Benefits | — | 671,038 | 22,198,504 | 22,869,542 |
| Refunds of contributions | 10,715 | — | — | 10,715 |
| Administrative expenses | — | 33,078 | — | 33,078 |
| Total deductions | 10,715 | 704,116 | 22,198,504 | 22,913,335 |
| Net increase (decrease) before transfers among reserves | 3,220,727 | (51,938,363) | (12,595,597) | (61,313,233) |
| Transfers among reserves: | | | | |
| Retirements | (883,328) | (22,050,570) | 22,933,898 | — |
| Net increase (decrease) | 2,337,399 | (73,988,933) | 10,338,301 | (61,313,233) |
| Net assets held in trust for pension benefits: | | | | |
| Beginning of year | 15,147,953 | 292,708,126 | 109,747,508 | 417,603,587 |
| End of year | \$ 17,485,352 | 218,719,193 | 120,085,809 | \$ 356,290,354 |