



**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Pension Amounts

June 30, 2015

(With Independent Auditors' Report Thereon)

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

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Independent Auditors' Report

The Treasurer
State of New Jersey:

We have audited the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) included in the accompanying schedule of pension amounts of the State of New Jersey Judicial Retirement System as of and for the year ended June 30, 2015, and the related notes.

Management's Responsibility for the Schedule

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

Auditors' Responsibility

Our responsibility is to express opinions on the specified column totals included in this schedule of pension amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the specified column totals included in the schedule of pension amounts are free from material misstatement.

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

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



Opinions

In our opinion, the schedule referred to above presents fairly, in all material respects, the net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions for the State of New Jersey Judicial Retirement System as of and for the year ended June 30, 2015 in accordance with U.S. generally accepted accounting principles.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of New Jersey, Division of Pensions and Benefits, which includes the Judicial Retirement System, as of and for the year ended June 30, 2015, and our report thereon, dated March 8, 2016, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the State of New Jersey, Division of Pensions and Benefits management, the Treasurer of the State of New Jersey, the State of New Jersey and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Short Hills, New Jersey
September 20, 2016

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Pension Amounts

As of and for the year ended June 30, 2015

<u>Net pension liability</u>	<u>Deferred outflows of resources</u>			<u>Deferred inflows of resources</u>			<u>Total pension expense excluding that attributable to employer-paid member contributions</u>	
	Differences between expected and actual experience	Changes of assumptions	Total deferred outflows of resources	Differences between expected and actual experience	Changes of assumptions	Net difference between projected and actual investment earnings on pension plan investments		Total deferred inflows of resources
\$ 666,181,210	—	12,893,331	12,893,331	1,251,753	30,241,994	4,524,126	36,017,873	42,306,768

See accompanying notes to schedule of pension amounts.

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JUDICIAL RETIREMENT SYSTEM

Notes to Schedules of Pension Amounts

June 30, 2015

(1) Plan Description

The State of New Jersey, Judicial Retirement System (JRS) is a single-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about JRS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

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

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

(2) Basis of Presentation

The schedule of pension amounts (the Schedule) presents amounts that are considered elements of the financial statements of JRS and the State of New Jersey as the employer. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of JRS or the State of New Jersey. The accompanying Schedule was prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of JRS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(3) Contributions

The contribution policy for JRS is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined amount which includes the normal cost and unfunded accrued liability. For fiscal year 2015, the State's pension contribution was less than the actuarial determined amount.

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(4) Net Pension Liability and Actuarial Information

Components of Net Pension Liability

The components of the net pension liability for JRS as of June 30, 2015 are as follows:

Total pension liability	\$	878,964,581
Plan fiduciary net position		212,783,371
Net pension liability	\$	666,181,210
Plan fiduciary net position as a percentage of the total pension liability		24.21%

The amounts above for total pension liability and net pension liability were changed from previously reported amounts in the Division's 2015 CAFR. These changes were made to reflect updated mortality assumptions based on a recent actuarial experience study. The changes resulted in a decrease in total pension liability and net pension liability of \$91,060,902.

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate		3.04%
Salary increases:		
2012-2021		2.50%
Thereafter		3.50%
Investment rate of return		7.90%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables (unadjusted for males and set forward three years for females) projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB for the base tables. These rates were further projected beyond the base year using the actuary's MP-2014 Projection scale.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

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Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in JRS's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment grade credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High yield bonds	2.00%	4.03%
Inflation-indexed bonds	1.50%	3.25%
Broad U.S. equities	27.25%	8.52%
Developed foreign equities	12.00%	6.88%
Emerging market equities	6.40%	10.00%
Private equity	9.25%	12.41%
Hedge funds/Absolute return	12.00%	4.72%
Real estate (property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global debt excluding U.S.	3.50%	-0.40%
Real estate investment trusts	4.25%	5.12%

Discount Rate

The discount rate used to measure the total pension liability was 4.12% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2022. Therefore, the long-term expected rate of return on plan investments

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was applied to projected benefit payments through 2022, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of Net Pension Liability

The following presents the net pension liability of JRS as of June 30, 2015, calculated using the discount rate as disclosed above as well as what JRS's net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	At 1% decrease (3.12%)	At current discount rate	At 1% increase (5.12%)
\$	759,725,112	666,181,210	586,482,742

(5) Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2015:

	Year of deferral	Amortization period	Beginning of year balance	Additions	Deductions	End of year balance
Deferred Outflows of Resources:						
Change of assumptions	2014	3.84 years	\$ 19,900,576	—	7,007,245	12,893,331
Total			19,900,576	—	7,007,245	12,893,331
Deferred Inflows of Resources:						
Change of assumptions	2015	3.60 years	\$ —	41,873,530	11,631,536	30,241,994
Difference between expected and actual experience	2015	3.60 years	—	1,733,197	481,444	1,251,753
Difference between projected and actual earnings on pension plan investments	2014	5 years	14,670,661	—	3,667,665	11,002,996
	2015	5 years	—	(8,098,588)	(1,619,718)	(6,478,870)
Subtotal			14,670,661	(8,098,588)	2,047,947	4,524,126
Total			\$ 14,670,661	35,508,139	14,160,927	36,017,873

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:		
2016	\$	(7,153,682)
2017		(8,274,841)
2018		(9,315,735)
2019		1,619,716
Total	\$	<u><u>(23,124,542)</u></u>

(6) Pension Expense

The components of total pension expense, which exclude amounts attributable to employer paid member contributions, for the year ending June 30, 2015 are as follows:

Service cost	\$	30,702,986
Interest on total pension liability		41,473,055
Member contributions		(6,310,124)
Administrative expense		168,763
Expected investment return net of investment expenses		(16,574,230)
Recognition (amortization) of deferred inflows/outflows of resources:		
Changes of assumptions		(4,624,291)
Differences between expected and actual experience		(481,444)
Difference between projected and actual investment earnings on pension plan investments		<u>(2,047,947)</u>
Pension expense	\$	<u><u>42,306,768</u></u>