

**THE PRISON OFFICERS' PENSION FUND
OF NEW JERSEY
ANNUAL REPORT
OF THE ACTUARY
PREPARED AS OF JULY 1, 2001**

January 7, 2002

Board of Trustees
Prison Officers' Pension
Fund of New Jersey
Trenton, New Jersey

Members of the Board:

The law governing the operation of the Prison Officers' Pension Fund of New Jersey provides for annual actuarial valuations of the Fund. The results of the July 1, 2001 valuation are submitted in this report which also includes a comparison with the preceding year's valuation.

The valuation shows the financial condition of the Fund as of July 1, 2001 and gives the basis for determining the required annual contribution for the plan year beginning July 1, 2001.

The valuation was prepared on the basis of the same assumptions as were employed for the previous valuation which include an interest rate of 5% per year.

The Table of Contents, which follows, highlights the Sections of the Report.

Respectfully submitted,

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REPORT ON THE ANNUAL
VALUATION OF
THE PRISON OFFICERS' PENSION FUND
OF NEW JERSEY
PREPARED AS OF JULY 1, 2001

SECTION I - SUMMARY OF KEY RESULTS

The Prison Officer's Pension Fund of New Jersey was established under Chapter 220 of the Laws of 1941 and permitted prison officer members of the then State Employees' Retirement System to transfer to the new Fund. Effective January 1, 1960, the Fund was closed to new employees. This report, prepared as of July 1, 2001 presents the results of the annual actuarial valuation of the Fund.

For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results are summarized on the following pages.

Valuation Date	July 1, 2001	July 1, 2000
<u>Participant Data</u>		
Active Members	0	0
Retired Members and Beneficiaries	<u>249</u>	<u>258</u>
Total Participants	249	258
Annual Compensation	\$ 0	\$ 0
Annual Retirement Allowances	\$ 1,741,218	\$ 1,837,820
<u>Assets</u>		
Market Value of Assets	\$ 18,269,899	\$ 18,268,489
Actuarial Value of Assets	\$ 18,269,899	\$ 18,268,489
<u>Contribution Amounts</u>		
Normal Contribution	\$ 0	\$ 0
Accrued Liability Contribution	<u>0</u>	<u>0</u>
Total Contribution	\$ 0	\$ 0

The major benefit and contribution provisions of the statute as reflected in the valuation are summarized in Appendix A. There were no changes from the provisions used in the previous valuation.

The actuarial assumptions and methods used for valuing the Fund are summarized in Appendix B. There were no changes in actuarial assumptions and methods since the previous valuation.

The combination of the plan provisions, actuarial assumptions and member and beneficiary data is used to generate the overall required level of employer contributions. The required contribution is developed in Section III F.

The valuation also generates a balance sheet which summarizes in some detail the total present and prospective assets and liabilities of the Fund. A summary comparison of the balance sheets as of July 1, 2000 and July 1, 2001 is set forth in the following table.

TABLE I
COMPARATIVE BALANCE SHEET

<u>ASSETS</u>	2001	2000
Market Value of assets of Fund	\$ 18,269,899	\$ 18,268,489
Unfunded accrued liability/(surplus)	(5,275,332)	(4,051,901)
Total Assets	\$ 12,994,567	\$ 14,216,588
<u>LIABILITIES</u>		
Present value of benefits to present beneficiaries payable from the Retirement Reserve Fund:	\$ 12,994,567	\$ 14,216,588
Present value of benefits to present active members	0	0
Total Liabilities	\$ 12,994,567	\$ 14,216,588

Section V of the report provides information regarding the level of funding for the Fund. Please refer to that Section for a discussion of this topic.

SECTION II - EMPLOYEE DATA

The data employed for the valuation was furnished to the actuary by the Division of Pensions and Benefits. Appendix C contains summary tables which present the number and retirement allowances of members classified by age. The following summarizes and compares the Fund membership as of July 1, 2000 and July 1, 2001 by various categories.

MEMBERSHIP - ACTIVE

- There have been no active participants in the Plan since July 1, 1994.

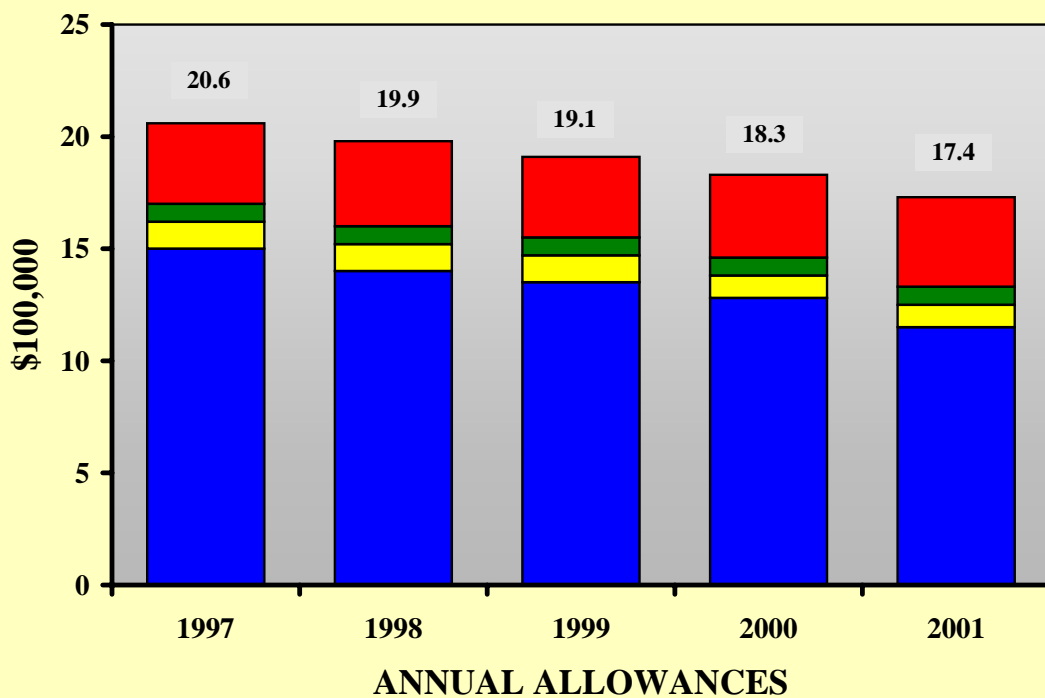
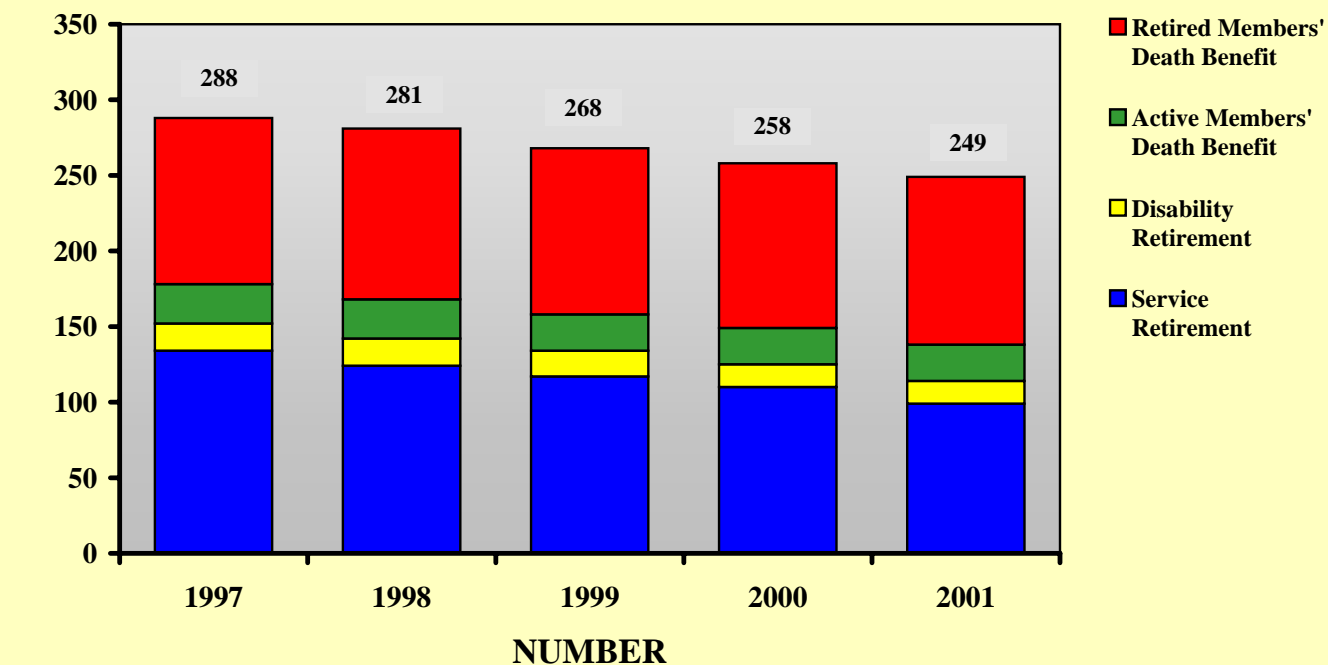
RETIRED MEMBERS AND BENEFICIARIES

GROUP	2001		2000	
	Number	Annual Allowances	Number	Annual Allowances
Service Retirements	99	\$ 1,153,385	110	\$ 1,281,614
Disability Retirements	15	\$ 104,591	15	\$ 104,591
Active Members' Death Benefits	24	\$ 80,488	24	\$ 80,488
Retired Members' Death Benefits	111	\$ 402,754	109	\$ 371,127

Graphic presentations of the statistical data on membership for the five preceding years are shown on the following page.

THE PRISON OFFICERS' PENSION FUND OF NEW JERSEY

SUMMARY OF RETIRED PARTICIPATION



SECTION III - ASSETS, LIABILITIES AND CONTRIBUTIONS

A. Market Value of Assets as of June 30, 2001

1.	Assets		
	a.	Cash	\$ 324,772
	b.	Investment Holdings	18,041,284
	c.	Accrued Interest	194,866
	d.	Pension Adjustment Receivable	23
	e.	Total	<u>\$ 18,560,945</u>
2.	Liabilities		
	a.	Pension Payroll Payable	\$ 129,401
	b.	Pension Adjustment Payroll Payable	125,201
	c.	Withholdings Payable	35,201
	d.	Administrative Expense Payable	1,243
	e.	Other Accounts Payable	0
	f.	Total	<u>\$ 291,046</u>
3.	Receivable Contribution		\$ 0
4.	Market Value of Assets as of June 30, 2001 = 1(e) - 2(f) + 3		\$ 18,269,899

B. Reconciliation of Market Value of Assets from June 30, 2000 to June 30, 2001

1.	Market Value of Assets as of June 30, 2000		\$ 18,268,489
2.	Increases		
	a.	Members' Contributions @ 6%	\$ 0
	b.	State Appropriations	0
	c.	Investment Income	1,792,985
	d.	Total	<u>\$ 1,792,985</u>
3.	Decreases		
	a.	Retirement Allowances	\$ 1,774,569
	b.	Administrative Expenses	17,006
	c.	Total	<u>\$ 1,791,575</u>
4.	Receivable Contribution		\$ 0
5.	Market Value of Assets as of June 30, 2001 = 1 + 2(d) - 3(c) + 4		\$ 18,269,899

C. Reconciliation of Actuarial Valuation of Assets and Ledger Assets

1.	Actuarial Value of Assets (Retirement Reserve Fund)	\$	18,269,899
2.	Pension Adjustment Fund: A(2)(b) - A(1)(d)		<u>125,178</u>
3.	Total Ledger Assets	\$	18,395,077

D. Present Value of Benefits

1.	Active Members		
	a. Service Retirement	\$	0
	b. Death Before Retirement		0
	c. Death After Retirement		<u>0</u>
	d. Total	\$	0
2.	Service Retirees	\$	9,097,845
3.	Disability Retirees	\$	745,079
4.	Beneficiaries	\$	<u>3,151,643</u>
5.	Total: 1(d) + 2 + 3 + 4	\$	12,994,567

E. Tracking of Unfunded Accrued Liability/(Surplus)

1.	Unfunded Accrued Liability/(Surplus) as of July 1, 2000	\$	(4,051,901)
2.	Interest on 1 at 5.00%		(202,595)
3.	Contributions received		0
4.	Interest on 3 at 5.00%		<u>0</u>
5.	Expected Unfunded Accrued Liability/(Surplus) as of July 1, 2001 = 1 + 2 - 3 - 4	\$	(4,254,496)
6.	Actual Unfunded Accrued Liability/(Surplus) as of July 1, 2001	\$	<u>(5,275,332)</u>
7.	Actuarial Loss (Gain) = 6 - 5	\$	(1,020,836)

F. Development of Required Contribution

1.	Present Value of Benefits as of July 1, 2001	\$	12,994,567
2.	Present Value of Future Contributions:		
	a. Future State Appropriations	\$	0
	b. Future Employee Contributions		0
	c. Future State Normal Contributions		0
	d. Total	\$	0
3.	Actuarial Value of Assets as of July 1, 2001	\$	18,269,899
4.	Actuarial Surplus: 1 - 2(d) - 3	\$	(5,275,332)
5.	Amortization of Loss (Gain) over 1 - year period commencing July 1, 2001 and ending July 1, 2002; not less than zero	\$	0
6.	State Appropriations from prior valuation	\$	0
7.	State Appropriations Payable July 1, 2002: 5 + 6; not less than zero	\$	0

G. Fund Projection

The following is an estimate of the expected receipts and disbursements for the Fund over the next year. (An initial unfunded accrued liability was determined as of July 1, 1988 and was to be amortized over the 14-year period beginning July 1, 1989 and ending on July 1, 2002. This section presents anticipated Fund activity over the balance of that initial period.) The projection is based on the assumptions set forth in Appendix B. All receipts and disbursements are assumed to occur mid-year.

Year	July 1 Fund Balance	State Appropriations	Member Contributions	Pension Payments	Interest
2001	\$18,269,899	\$ 0	\$ 0	\$1,696,488	\$871,600
2002	17,445,011	0	0	1,605,875	832,593

SECTION IV - COMMENTS CONCERNING THE VALUATION

The variation in liabilities and contributions reflects the Fund's actual experience during the year. The Fund experienced a net actuarial gain during the year that ended June 30, 2001.

The actuarial gain was due to a better than expected return on Fund assets. For valuation purposes, a 5.00% per annum rate of return on investments was assumed. The actual return on the Fund's actuarial value of assets was approximately 10.32% for the period July 1, 2000 through June 30, 2001.

There was also an experience gain due to mortality experience among the retired participants. The actual accrued liability released due to deaths among retired participants and beneficiaries was more than anticipated by the present mortality assumptions.

The following outlines the effect of the primary actuarial experience components:

• Investment Loss (Gain)	\$ (888,341)
• Other Loss (Gain), including mortality, changes in employee data	<u>(132,495)</u>
• Total Actuarial Loss (Gain)	\$ (1,020,836)

SECTION V - ACCOUNTING INFORMATION

Statement No. 5 of the Governmental Accounting Standards Board, issued November 1986, established standards of disclosure of pension information by public retirement systems. Statement No. 25 of the Governmental Accounting Standards Board, issued November 1994, established financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local governmental liabilities and superseded Statement No. 5 effective for periods beginning after June 15, 1996. Statement No. 27, Accounting for Pensions by State and Local Governmental Employers superseded Statement 5 for employers participating in pension plans and is effective for periods beginning after June 15, 1997.

The information required by Statements No. 25 and No. 27 is presented in the following tables. These include the development of the Annual Required Contribution (ARC), the development of the Net Pension Obligation (NPO), the Schedule of Funding Progress and the Schedule of Employer Contributions.

(A) Development of the Annual Required Contribution (ARC) as of June 30, 2003:

1. Actuarial Value of Plan Assets as of June 30, 2001		
(a) Valuation Assets as of June 30, 2001	\$	18,269,899
(b) Adjustment for Receivable Contributions included in (a)		0
(c) Valuation Assets as of June 30, 2001 for GASB Disclosure = (a) - (b)	\$	18,269,899

2.	Actuarial Accrued Liability as of June 30, 2001 for GASB Disclosure	\$	12,994,567
3.	Unfunded Actuarial Accrued Liability/(Surplus) as of June 30, 2001 = 2 - 1 (c)	\$	(5,275,332)
4.	Amortization of Unfunded Actuarial Accrued Liability/(Surplus) over 1 year	\$	(5,275,332)
5.	Normal Cost as of June 30, 2001	\$	0
6.	Annual Required Contribution as of June 30, 2003		
(a)	Annual Required Contribution as of June 30, 2001 = 4. + 5.	\$	(5,275,332)
(b)	Interest Adjustment to June 30, 2003		<u>(540,722)</u>
(c)	Annual Required Contribution as of June 30, 2003 = (a) + (b)	\$	(5,816,054)
(B)	<u>Development of the Net Pension Obligation (NPO) as of June 30, 2003:</u>		
1.	Annual Required Contribution as of June 30, 2003	\$	(5,816,054)
2.	Interest on Net Pension Obligation		(358,547)
3.	Adjustment to Annual Required Contribution		<u>7,529,495</u>
4.	Annual Pension Cost = 1. + 2. + 3.	\$	1,354,894
5.	Expected Employer Contributions For Fiscal Year 2003	\$	0
6.	Increase in Net Pension Obligation = 4. - 5.	\$	1,354,894
7.	Net Pension Obligation at June 30, 2002		<u>(7,170,948)</u>
8.	Net Pension Obligation at June 30, 2003 = 6. + 7.	\$	(5,816,054)

(C) Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll $\frac{(b-a)}{c}$
6/30/96	\$ 18,654,334	\$ 18,654,334	\$ 0	100.0%	N/A	N/A
6/30/97	\$ 20,977,035	\$ 17,479,545	\$ (3,497,490)	120.0%	N/A	N/A
6/30/98	\$ 20,096,072	\$ 16,430,313	\$ (3,665,759)	122.3%	N/A	N/A
6/30/99	\$ 19,137,919	\$ 15,292,629	\$ (3,845,290)	125.1%	N/A	N/A
6/30/00	\$ 18,268,489	\$ 14,216,588	\$ (4,051,901)	128.5%	N/A	N/A
6/30/01	\$ 18,269,899	\$ 12,994,567	\$ (5,275,332)	140.6%	N/A	N/A

(D) Schedule of Employer Contributions

Fiscal Year	Annual Required Contribution	Employer Contribution	Percentage Contributed
1998	\$ 0	\$ 0	100.0%
1999	\$ 0	\$ 0	100.0%
2000	\$ 0	\$ 0	100.0%
2001	\$ 0	\$ 0	100.0%
2002	\$ 0	\$ 0	100.0%
2003	\$ 0	\$ 0	100.0%

(E) The information presented in the required supplementary schedules was determined as part of the actuarial valuation. Additional information follows:

Valuation Date	June 30, 2001
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar, closed
Remaining Amortization Period	1 year
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%

APPENDIX A

BRIEF SUMMARY OF THE BENEFIT AND
CONTRIBUTION PROVISIONS AS INTERPRETED
FOR VALUATION PURPOSES

Eligibility for Membership

Employees of State penal institutions, employed prior to January 1, 1960 who did not transfer to the Police & Firemen's Retirement System in accordance with Chapter 205 of Public Law 1989. The System no longer accepts new members.

1. Definitions

Plan Year	The 12-month period beginning on July 1 and ending on June 30.
Service	A year is credited for each year an employee is a member of the retirement system.
Average Final Compensation (AFC)	Average annual compensation (or base salary) for 3 years of Service immediately preceding retirement. (Effective June 30, 1996, Chapter 113, P.L. 1997 provided that the amount of compensation used for employer and member contributions and benefits under the program cannot exceed the compensation limitation of Section 401(a)(17) of the Internal Revenue Code.)
Accumulated Deductions	The sum (without interest) of all required amounts deducted from the compensation of a member or contributed by him or on his behalf.

2. Benefits

Service Retirements	25 years of service, or age 55 and 20 years of service. The benefit is a life annuity equal to the greater of (A), (B), and (C) below:
	(A) 2% of AFC up to 30 years of service plus 1% for each year in excess of 30 and prior to age 65;
	(B) 50% of final pay; and
	(C) For a member with 25 years of service, 2% of AFC up to 30 years of service plus 1% for each year in excess of 30.

Vested Retirements Eligible upon termination of employment. Benefits are summarized as follows:

Termination with 10 or more years of service: Benefit is a deferred life annuity equal to 2% of AFC for service up to 30 years plus 1% for service over 30 years.

Termination with less than 10 years of service: Refund of accumulated deductions.

Ordinary Disability Retirement

Permanent and total disability for causes other than as a direct result of a traumatic event occurring during the performance of regular or assigned duties. Benefit is an immediate life annuity equal to 1/2 of AFC.

Accidental Disability Retirement

Permanent and total disabled as a direct result of a traumatic event occurring while performing regular or assigned duties. Benefit is an immediate life annuity equal to 2/3 of AFC.

Death Benefits

Death of member of system. Spouse must be married to member prior to retirement, or at least five years before member's death. Benefit is an annuity equal to 25% of member's AFC plus an additional 15% (25%) for one (two or more) surviving dependent child (children). If there is no spouse or if the spouse dies or remarries, 20% (35%, 50%) of AFC to one (two, three or more) surviving child (children). If there is no surviving spouse or children, 25% (40%) of AFC to one (two) dependent parent(s). The provision for a survivor annuity payable to dependent parents does not apply in the death of a retired member of the system.

Minimum benefits: Minimum spousal annuity is \$1,600 per annum. If no other benefit is payable prior to retirement, the member's beneficiary shall receive the accumulated deductibles.

3. Employee Contributions

Each member contributes 6% of compensation.

APPENDIX B

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

VALUATION INTEREST RATE: 5.0% per annum, compounded annually.

DEATHS AFTER RETIREMENT: Representative values of the Assumed Annual rates of mortality for current retirees are as follows:

Age	Service Retirement	Disability Retirement	Widows
40	.21%	.90%	.56%
45	.34	1.10	.68
50	.56	1.42	.87
55	.90	1.93	1.18
60	1.42	2.72	1.67
65	2.17	3.97	2.43
70	2.75	5.91	3.63
75	4.46	8.91	5.50
80	7.41	13.46	8.39
85	11.48	20.22	12.80

MARRIAGE: Husbands are assumed to be 3 years older than wives.

VALUATION METHOD:

The unfunded accrued liability (the difference between the present value of benefits and the valuation assets) was determined as of July 1, 1988. This liability is to be amortized over the 14-year period beginning July 1, 1989, and ending on July 1, 2002. Each year the amortization payments are adjusted to reflect any experience gains or losses that have occurred during the previous plan year. All gains and losses will be amortized over the remaining original amortization period.

ASSET VALUATION METHOD

Assets are valued at book value which is equivalent to market value.

APPENDIX C

TABULATIONS USED AS A BASIS FOR THE 2001 VALUATION

The following tables give the number and retirement allowances of retired members and beneficiaries classified by age as of July 1, 2001.

TABLE 1

**THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCES OF RETIRED MEMBERS DISTRIBUTED
BY AGE AS OF JULY 1, 2001**

SERVICE RETIREMENTS

AGE	MEN		WOMEN	
	NUMBER	AMOUNT	NUMBER	AMOUNT
67	1	\$ 25,660		
68	1	12,752		
69	4	63,333		
70	4	57,601		
71	6	95,395		
72	8	91,941		
73	6	66,321		
74	7	74,423		
75	5	75,112		
76	3	31,838		
77	4	48,024		
78	4	60,045		
79	4	74,264		
80	6	69,456		
81	8	85,887		
82	5	46,192	1	\$ 7,389
83	5	60,079		
84	2	11,181		
85	1	11,417		
86	3	18,650		
87	3	22,621		
88	1	6,570		
89	2	14,143		
91	1	6,474		
93	2	10,701		
95	1	3,491		
100	1	2,424		
TOTAL	98	\$ 1,145,996	1	\$ 7,389

TABLE 2

**THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCES OF RETIRED MEMBERS DISTRIBUTED
BY AGE AS OF JULY 1, 2001**

DISABILITY RETIREMENTS

AGE	MEN		WOMEN	
	NUMBER	AMOUNT	NUMBER	AMOUNT
66	1	\$ 7,701		
69	1	7,655		
71	1	6,124		
72	1	5,716		
73	3	22,086		
74	2	15,959		
75	1	12,391		
77	1	6,207		
78	1	5,108		
80			1	\$ 5,155
81	1	5,430		
82	1	5,058		
TOTAL	14	\$ 99,436	1	\$ 5,155

TABLE 3

**THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCES OF BENEFICIARIES DISTRIBUTED
BY AGE AS OF JULY 1, 2001**

ACTIVE MEMBERS' DEATH BENEFITS

AGE	MEN		WOMEN	
	NUMBER	AMOUNT	NUMBER	AMOUNT
48			1	\$ 5,174
67	1	\$ 2,976		
68			1	7,622
69			1	3,535
71	1	3,268	1	2,798
72			1	5,431
73			2	9,922
75			1	5,714
76			4	9,359
77			1	3,604
78			1	1,600
79			1	2,672
80			2	6,603
81			1	1,600
82			2	5,410
84			1	1,600
85			1	1,600
TOTAL	2	\$ 6,244	22	\$ 74,244

TABLE 4

**THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCES OF BENEFICIARIES DISTRIBUTED
BY AGE AS OF JULY 1, 2001**

RETIRED MEMBERS' DEATH BENEFITS

AGE	MEN		WOMEN	
	NUMBER	AMOUNT	NUMBER	AMOUNT
50	1	\$ 1,001		
60			1	\$ 6,817
61			1	7,533
63			1	3,894
64			2	7,897
65			1	9,745
66			1	2,355
67			1	5,466
69			2	10,016
70			3	16,470
71			3	16,870
72			4	16,454
73			3	17,659
74			4	14,221
75			3	12,645
76			7	31,201
77			5	26,876
78			6	23,865
79			7	24,660
80			2	10,409
81			7	21,295
82			6	18,037
83			5	19,493
84			4	11,254
85			2	3,957
86			6	15,753
87			3	6,005
88			2	4,912
89			1	1,695
90			2	5,600
91			2	3,341
92			3	9,217
93			2	3,200
95			1	1,600
96			2	3,200
97			2	3,200
99			1	1,743
100			1	1,600
103			1	1,600
TOTAL	1	\$ 1,001	110	\$ 401,753