

*Financial
Section*

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KPMG LLP
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Independent Auditors' Report

Office of Legislative Services
Office of the State Auditor
State of New Jersey:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the State of New Jersey Division of Pensions and Benefits (the Division) as of and for the year ended June 30, 2003, which collectively comprise the Division's basic financial statements as listed in the accompanying index. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions on these financial statements 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 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 audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Division are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, and each major fund, of the State that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the State of New Jersey Division of Pensions and Benefits as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 audit was made for the purpose of forming opinions on the financial statements taken as a whole. The combining schedules and schedule of administrative expenses, schedule of investment expenses, and schedule of expenses for consultants are presented for purposes of additional analysis and are not a required part of the financial statements of the Division. Such information has been subjected to the auditing procedures applied in the audit 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.

The information included in the schedule of loss development information and the Introductory, Investment, Actuarial, and Statistical sections of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

September 19, 2003

KPMG LLP



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

June 30, 2003

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STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis

June 30, 2003

Our discussion and analysis of the financial performance of the governmental funds, proprietary funds, and fiduciary funds (the Funds) administered by the Division of Pensions and Benefits (the Division) provides an overview of the Funds' financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

Governmental Activities:

- For Health Benefits Program-State, net assets decreased by \$2.8 million as a result of operations from (\$92.5) million to (\$95.3) million. For Prescription Drug Program-State, net assets increased by \$18.5 million from \$6.1 million to \$24.6 million. For Dental Expense Program, net assets decreased by \$0.8 million from \$17.1 million to \$16.3 million.
- Revenues recognized during the year were as follows: \$816.4 million for the Health Benefits Program-State; \$191.3 million for the Prescription Drug Program-State; \$56.1 million for the Dental Expense Program.
- Expenses incurred during the year were as follows: \$816.2 million for the Health Benefits Program-State; \$175.8 million for the Prescription Drug Program-State; \$56.9 million for the Dental Expense Program.

Business-Type Activities:

- For Health Benefits Program-Local, net assets increased by \$117.8 million as a result of operations from (\$59.7) million to \$58.1 million. For Prescription Drug Program-Local, net assets increased by \$3.1 million from \$5.2 million to \$8.3 million.
- For the Health Benefits Program-Local and the Prescription Drug Program-Local, revenues recognized during the year were \$1.4 billion and \$65.7 million, respectively.
- For Health Benefits Program-Local and the Prescription Drug Program-Local, expenses incurred during the year were \$1.3 billion and \$62.6 million, respectively.

Fund Financial Statements

Fiduciary Funds:

Pension Trust Funds:

- Fiduciary net assets decreased by \$1.6 billion as a result of this year's operations from \$67.1 billion to \$65.5 billion.
- Additions for the year were \$3.4 billion, which are comprised of member and employer pension contributions of \$1.4 billion and investment income of \$ 2.0 billion.
- Deductions for the year were \$5 billion, which are comprised of benefit and refund payments of \$4.9 billion and administrative expenses of \$34.5 million.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis, Continued

June 30, 2003

- The Funds utilized net assets (excess assets above the required funding level) to meet this year's normal pension contribution requirements.
- Net assets held in trust for post-retirement medical benefits were partially used this year to pay part of premiums and other periodic charges for health care benefits for qualified retirees and their dependents in the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) in the amount of \$66.5 million and \$43.9 million, respectively.

Agency Funds:

- For Alternate Benefit Program Fund and Pension Adjustment Fund, total additions were \$130.4 million mostly consisting of member and employer contributions of \$130 million and investment income of \$0.4 million.
- For Alternate Benefit Program Fund and Pension Adjustment Fund, total deductions were \$130.4 million consisting of pension and insurance benefit charges of \$128.4 million and other expenses of \$2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide financial statements

Government-wide financial statements include the following governmental activities and business-type activities:

Governmental Activities:

Health Benefits Program - State
Prescription Drug Program - State
Dental Expense Program

Business-Type Activities:

Health Benefits Program - Local
Prescription Drug Program - Local

The government-wide financial statements consist of the statement of net assets (deficit) and the statement of activities. The statement of net assets (deficit) presents information on all of the assets and liabilities of the Funds, with the difference between the two reported as net deficit. Over time, increases or decreases in the net assets (deficit) provide one indication of whether the financial health of the Funds is improving or declining. The statement of activities presents information showing how the Funds' net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.



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Management's Discussion and Analysis, Continued
June 30, 2003

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Division can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds:

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Funds' long-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds:

Proprietary funds include funds that are classified as Enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to business enterprises where the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Like government-wide financial statements, the financial statements of the proprietary funds were prepared using the accrual basis of accounting. The basic proprietary fund financial statements consist of the statement of net assets, the statement of revenues, expenses, and changes in net assets (deficit), and the statement of cash flows. The statement of cash flows provides detail about the individual sources and uses of cash associated with operating activities and noncapital financing activities.

Fiduciary Funds:

Fiduciary funds are used to account for the assets that the Division holds on behalf of others as their agent. Fiduciary funds are custodial in nature and do not involve measurement of results of operations.

The Division administers thirteen fiduciary funds, eleven pension trust funds and two agency funds. The basic fiduciary fund financial statements consist of the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which includes information regarding the funding status of the pension trust funds.



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DIVISION OF PENSIONS AND BENEFITS
Management's Discussion and Analysis, Continued
June 30, 2003

FINANCIAL ANALYSIS

Government-wide:

STATEMENT OF NET ASSETS (DEFICIT)

Governmental Activities:

Assets mainly consist of cash, investments, and contributions due from members, participating employers and former members who are covered under the rules of the Federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), and contributions due from the PERS and the TPAF to provide funding for post-retirement medical benefits. Between fiscal years 2002 and 2003, total assets increased by \$20.1 million or 27.7% from \$72.5 million to \$92.6 million. The increase in total assets is mainly due to increase in contributions from members and the State.

Liabilities mainly consist of outstanding medical and long-term disability claim payments, including incurred but not reported (IBNR) claims. Total liabilities increased by \$5.3 million or 3.7% from \$141.7 million to \$147 million due to the increase in IBNR.

Net assets increased by \$14.8 million or 21.4% from (\$69.2) million to (\$54.4) million due to increase in revenues.

Business-Type Activities:

Assets mainly consist of cash, investments, contributions due from members, participating employers, and former members who are covered under the rules of COBRA. Between fiscal years 2002 and 2003, total assets increased by \$133.8 million or 93.2% from \$143.7 million to \$277.5 million. The increase in total assets is mainly due to increase in contributions from members and local employers.

Liabilities mainly consist of outstanding claim payments and IBNR claims. Total liabilities increased by \$13.0 million or 6.5% since the prior year from \$198.1 million to \$211.1 million due to increase in incurred claims.

Net assets increased by \$120.9 million or 221.9% from (\$54.5) million to \$66.4 million due to revenues exceeding expenses.

STATEMENT OF ACTIVITIES

REVENUES - ADDITIONS TO NET ASSETS (DEFICIT)

Governmental Activities:

	2003	2002	Increase (Decrease)
Member Contributions	\$ 98,538,421	\$ 92,615,336	\$ 5,923,085
Employer Contributions	964,089,279	783,945,829	180,143,450
CMF Investment & Other	1,157,744	2,403,464	(1,245,720)
Totals	\$ 1,063,785,444	\$ 878,964,629	\$ 184,820,815



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Business-Type Activities:

	2003	2002	Increase (Decrease)
Member Contributions	\$ 75,340,822	\$ 62,065,953	\$ 13,274,869
Employer Contributions	1,411,263,887	1,098,924,109	312,339,778
CMF Investment & Other	1,378,803	2,484,915	(1,106,112)
Totals	\$ 1,487,983,512	\$ 1,163,474,977	\$ 324,508,535

Revenues primarily consist of member and employer contributions and earnings from Cash Management Fund (CMF) Investment activities. For the Governmental Activities, revenues increased by 21% from \$879 million to \$1 billion. For the Business-Type Activities, total revenues increased by 27.9% from \$1.2 billion to \$1.5 billion. The increase in revenues is attributable to an increase in the premium rates for the health, dental, and prescription drug plans. Member contributions increased by 6.4% for the Governmental Activities and by 21.4% for the Business-Type Activities for the same reason. The reduction in investment and other revenues is primarily due to lower interest earnings from CMF holdings.

EXPENSES - DEDUCTIONS FROM NET ASSETS (DEFICIT)

Governmental Activities:

	2003	2002	Increase (Decrease)
Benefits	\$ 1,046,043,657	\$ 924,003,561	\$ 122,040,096
Administrative Expenses	2,919,206	2,346,803	572,403
Totals	\$ 1,048,962,863	\$ 926,350,364	\$ 122,612,499

Expenses primarily consist of claim charges for the self-insured health, prescription drug, and dental plans, premium charges for the insured health and dental programs, and administrative expenses. During the year, expenses increased by \$122.6 million or 13.2% for the Governmental Activities. For the insured plans, expenses increased due to the higher premium rates for calendar year 2003. The average premium rate increase for all plans is 17.5% for active members and 24.2% for retirees in calendar year 2003. For the self-insured plans, the increase in benefit expenses was due to higher claim charges, which is attributable to the rising cost of health services.

Business-Type Activities:

	2003	2002	Increase (Decrease)
Benefits	\$ 1,362,676,860	\$ 1,212,090,971	\$ 150,585,889
Administrative Expenses	4,378,810	5,475,874	(1,097,064)
Totals	\$ 1,367,055,670	\$ 1,217,566,845	\$ 149,488,825

Expenses primarily consist of claim charges for the self-insured health and prescription drug plans, premium charges for the insured health and administrative expenses. During the year, expenses increased by \$149.5 mil-



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June 30, 2003

lion or 12.3% for the Business-Type Activities. For the insured plans, expenses increased due to higher premium rates for calendar year 2003. The average premium rate increase for all plans is 20.2% for active members and 26.6% for retirees in calendar year 2003. For the self-insured plans, the increase in benefit expenses was due to higher claim charges, which is attributable to the rising cost of health services.

Fiduciary Funds:

STATEMENT OF FIDUCIARY NET ASSETS

Pension Trust Funds:

Assets mainly consist of cash, investments, and contributions due from members and participating employers. Between fiscal years 2002 and 2003, total assets decreased by \$1.6 billion or 2.4% from \$67.5 billion to \$65.9 billion. The total assets decreased because pension benefit payments to retirees and beneficiaries exceeded the revenues received by the Funds.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, outstanding insurance premium payments, and other payables. Total liabilities decreased by \$8.2 million or 2.0% over last year from \$405.7 million to \$397.5 million. This is mainly due to a decrease in insurance premium payable.

Net assets decreased by \$1.6 billion or 2.4%.

Agency Funds:

The Funds' assets mainly consist of cash, investments and contributions due from the State and local employers. Between fiscal years 2002 and 2003, total assets increased by \$0.8 million or 3.0% from \$26.6 million to \$27.4 million. This is mainly due to an increase in contributions due from the State to cover pension and life insurance charges in the Alternate Benefit Program Fund.

Liabilities mainly consist of benefits payable to eligible recipients in the Pension Adjustment Fund; pension reimbursements owed by the State of New Jersey to state/county colleges and outstanding life and long-term disability insurance premium charges in the Alternate Benefit Program Fund. Between fiscal year 2002 and 2003, total liabilities increased by \$0.8 million or 3.0% from \$26.6 million to \$27.4 million. The increase in the liabilities is mainly related to the increase in the State's reimbursement liability to state/county colleges for employer share in the Alternate Benefits Program.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

Pension Trust Funds:

	2003	2002	Increase (Decrease)
Member Contributions	\$ 1,062,340,136	\$ 1,057,608,080	\$ 4,732,056
Employer Contributions	318,288,644	308,986,925	9,301,719
Investment & Other	2,013,921,753	(5,961,572,768)	7,975,494,521
Totals	\$ 3,394,550,533	\$ (4,594,977,763)	\$ 7,989,528,296



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Additions primarily consist of member and employer contributions and earnings from investment activities. There was only a slight increase of 0.5% in total member contributions. In all pension trust funds other than Supplemental Annuity Collective Trust (SACT) and TPAF, member contributions increased between 2002 and 2003 partly due to normal salary increases or increased membership. The increases ranged from 3.2% in State Police Retirement System to 11.0% in Judicial Retirement System (JRS). SACT decreased by 7.3%, and TPAF decreased by 8.3%. The decrease in TPAF is related to the reduction in employee contribution rate in TPAF from 4.5% to 3%, effective January 1, 2002. (The new rate affected only half of the year in the prior fiscal year.)

Employer contributions (excluding pension adjustment fund) increased by 3.6%.

The State made a contribution of \$298.3 million for TPAF and \$69.9 million for PERS fiscal year 2003 post-retirement medical (PRM). In addition, the PRM reserve of \$43.9 million for TPAF and \$66.5 million for PERS were used to cover additional premiums due in fiscal year 2003. Legislation passed in 2002 (Chapter 11, P.L. 2002) allowed the State to use net assets in the PRM Fund to cover required pay-as-you-go medical premiums.

The State made a contribution of \$8.5 million to JRS and \$2.7 million to Consolidated Police and Firemen's Pension Fund to satisfy the actuarially accrued liabilities in fiscal year 2003.

Employer contributions recognized by Police and Firemen's Retirement System (PFRS) decreased by 127.8% mainly due to reduction of the previous appropriations down to 20% of the normal and accrued liability contributions, based on the new legislation, Chapter 108 (P.L. 2003).

Chapter 108 provides that the State Treasurer will reduce local employer PERS and PFRS normal and accrued liability contributions to be a percentage of the amount certified annually by PERS and PFRS as follows: 20% for PERS payments due in State fiscal year 2005; 20% for PFRS payments due in State fiscal year 2004. According to the Budget Appropriations Act of 2004, the State as well will pay pension obligations through a five-year phase-in.

For fiscal year 2003, the 84% of TPAF and PERS and the 68% of PFRS available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State and local employers were not required to make a normal contribution to TPAF, PERS, and PFRS from 1997 to 2003. The normal contribution for basic pension benefits, non-contributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997.

After the prior two consecutive years of investment losses, the Funds had investment gains in fiscal year 2003. The total investment gain for all pension funds was estimated to be 3.3% compared to 9.0% loss in the prior year.

Agency Funds:

	2003	2002	Increase (Decrease)
Member Contributions	\$ 673,034	\$ 651,432	\$ 21,602
Employer Contributions	129,345,617	121,669,465	7,676,152
Investment & Other	409,218	2,378,235	(1,969,017)
Totals	\$ 130,427,869	\$ 124,699,132	\$ 5,728,737



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis, Continued

June 30, 2003

For the Alternate Benefits Program Fund, additions primarily consist of member and employer contributions and earnings from investment activities. During the year, employer contributions increased by 8.3% due to higher base salaries. Investment earning decreased by \$1.8 million or 87.5% due to a reduction in the Cash Management Fund rate of return.

For the Pension Adjustment Fund, additions consist of employer contributions and earnings from investment activities. Contributions recognized by the Pension Adjustment Fund decreased over last year due to decrease in number of retirees and beneficiaries. Investment earnings dropped by \$0.1 million or 46.6% due to a reduction in the Cash Management Fund rate of return.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

Pension Trust Funds:

	2003	2002	Increase (Decrease)
Benefits	\$ 4,840,497,014	\$ 4,201,860,059	\$ 638,636,955
Refunds & Adjustments	100,119,056	99,592,876	526,180
Administrative Expenses	34,545,410	34,602,649	(57,239)
Totals	\$ 4,975,161,480	\$ 4,336,055,584	\$ 639,105,896

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Funds. Benefit payments increased by 15.2%. It is partly due to an increased number of retirees and beneficiaries. Also, it is partly due to the benefit enhancements in PERS and TPAF, effective with the November 1, 2001 retirement checks. (The new rate affected only eight months in the prior fiscal year.) The number of refunds processed has slightly increased compared to last year. Administrative expenses have slightly decreased.

Agency Funds:

	2003	2002	Increase (Decrease)
Benefits	\$ 128,400,036	\$ 121,542,876	\$ 6,857,160
Refunds & Amounts Due the General Fund	2,027,833	3,156,256	(1,128,423)
Totals	\$ 130,427,869	\$ 124,699,132	\$ 5,728,737

The increase in benefit payments is mainly due to the increase in the State reimbursement expense to state/county colleges based on 8% of the base salaries of active participants. Also, the increase is related to higher life insurance benefit payments in the Alternate Benefits Program Fund. The number of active and retired claims processed was higher as compared to the prior year.

Refunds and amounts due the general fund primarily represent contributions received from the State of New Jersey in excess of the amount required to cover benefit charges incurred by the Agency Funds. There was a decrease in this expense between 2003 and 2002.



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DIVISION OF PENSIONS AND BENEFITS
Management's Discussion and Analysis, Continued
June 30, 2003

OVERALL FINANCIAL CONDITION OF THE FUNDS

For the pension benefit funds, the combined funded ratios of 101.4% for fiscal year 2003 and 109.2% for 2002 indicate that these funds have assets sufficient to meet their benefit obligations.

For the State Health Benefits Program Fund - State and Local, contributions received by the Funds to pay the premiums for covered members are now keeping pace with the rising health costs and produce a necessary reserve. Management anticipates that through further rate actions and other initiatives, the Funds will maintain sufficient reserves.

The Prescription Drug - State and Local received contributions to meet this year's benefit obligations and to maintain a sufficient reserve. Through further rate actions and other initiatives, management anticipates that the financial condition of these benefit programs will remain stable.

During the year, the Alternate Benefits Program Fund and the Pension Adjustment Fund received sufficient funding to meet their benefit obligations.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the Funds' finances and to show the Funds' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Net Assets (Deficit)
June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and cash equivalents	\$ 102,911	3,392,152	\$ 3,495,063
Investments, at fair value:			
Cash Management Fund	60,247,655	189,665,008	249,912,663
Total investments	60,247,655	189,665,008	249,912,663
Receivables:			
Other	1,096,798	80,076,833	81,173,631
Due from other funds	31,183,937	4,391,212	35,575,149
Total receivables	32,280,735	84,468,045	116,748,780
Total assets	\$ 92,631,301	277,525,205	\$ 370,156,506
Liabilities:			
Accounts payable and accrued expenses	\$ 31,259,555	17,976,104	\$ 49,235,659
Incurred but not reported claims	110,281,000	187,210,000	297,491,000
Deferred revenue	5,212,436	4,540,421	9,752,857
Due to other funds	257,065	1,366,006	1,623,071
Total liabilities	147,010,056	211,092,531	358,102,587
Net assets (deficit) - unrestricted	(54,378,755)	66,432,674	12,053,919
Total liabilities and net assets (deficit) - unrestricted	\$ 92,631,301	277,525,205	\$ 370,156,506

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Activities
Year Ended June 30, 2003

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets (Deficit)		
	Expenses	Charges for Services (Contributions)	Governmental Activities	Business-Type Activities	TOTAL
Primary government:					
Governmental activities:					
Health Benefits Program - State	\$ 816,181,188	815,788,562	(392,626)	—	\$ (392,626)
Dental Expense Program	56,978,567	55,792,287	(1,186,280)	—	(1,186,280)
Prescription Drug Program - State	175,803,108	191,046,851	15,243,743	—	15,243,743
Total governmental activities	1,048,962,863	1,062,627,700	13,664,837	—	13,664,837
Business-type activities:					
Health Benefits Program - Local	1,304,442,508	1,420,940,613	—	116,498,105	116,498,105
Prescription Drug Program - Local	62,613,162	65,664,096	—	3,050,934	3,050,934
Total business-type activities	1,367,055,670	1,486,604,709	—	119,549,039	119,549,039
Total primary government	\$ 2,416,018,533	2,549,232,409	13,664,837	119,549,039	\$ 133,213,876
General Revenues:					
Investment Earnings			\$ 1,157,744	1,378,803	\$ 2,536,547
Total general revenues			1,157,744	1,378,803	2,536,547
Change in Net Assets			14,822,581	120,927,842	135,750,423
Net assets (deficit) - Beginning of year			(69,201,336)	(54,495,168)	(123,696,504)
Net assets (deficit) - End of year			\$ (54,378,755)	66,432,674	\$ 12,053,919

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Balance Sheet
Governmental Funds

June 30, 2003

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Assets:				
Cash and cash equivalents	\$ 102,789	—	122	\$ 102,911
Investments, at fair value:				
Cash Management Fund	17,642,381	17,792,443	24,812,831	60,247,655
Total investments	17,642,381	17,792,443	24,812,831	60,247,655
Receivables:				
Other	661,782	398,205	36,811	1,096,798
Due from other funds	23,091,939	3,502,313	4,589,685	31,183,937
Total receivables	23,753,721	3,900,518	4,626,496	32,280,735
Total assets	\$ 41,498,891	21,692,961	29,439,449	\$ 92,631,301
Liabilities:				
Accounts payable and accrued expenses	\$ 25,031,880	1,517,675	4,710,000	\$ 31,259,555
Deferred revenue	4,693,084	515,612	3,740	5,212,436
Due to other funds	182,937	—	74,128	257,065
Total liabilities	29,907,901	2,033,287	4,787,868	36,729,056
Fund balances:				
Unreserved	11,590,990	19,659,674	24,651,581	55,902,245
Total liabilities and fund balances	\$ 41,498,891	21,692,961	29,439,449	\$ 92,631,301
Amounts reported in the statement of net assets are different because: Long term liabilities including IBNR are not due and payable in the current period and therefore not reported in the funds.	(106,931,000)	(3,350,000)		(110,281,000)
Fund Balances (Deficiencies)	\$ (95,340,010)	16,309,674		\$ (54,378,755)

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2003

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Revenues:				
Contributions:				
Members	\$ 67,800,942	29,601,504	1,135,975	\$ 98,538,421
Employers	747,987,620	26,190,783	189,910,876	964,089,279
Total contributions	815,788,562	55,792,287	191,046,851	1,062,627,700
Investment income:				
Net appreciation (depreciation) in fair value of investments	(47,165)	(33,668)	(38,384)	(119,217)
Interest	630,691	363,523	282,747	1,276,961
Total investment income	583,526	329,855	244,363	1,157,744
Total revenues	816,372,088	56,122,142	191,291,214	1,063,785,444
Expenditures:				
Benefits	798,840,982	56,898,567	175,803,108	1,031,542,657
Administrative expense	2,919,206	—	—	2,919,206
Total expenditures	801,760,188	56,898,567	175,803,108	1,034,461,863
Excess (deficiency) of revenues over (under) expenditures	14,611,900	(776,425)	15,488,106	29,323,581
Other Financing Sources (Uses):				
Transfers in	—	—	3,030,000	3,030,000
Transfers out	(3,030,000)	—	—	(3,030,000)
Total other financing sources and uses	(3,030,000)	—	3,030,000	—
Net change in fund balances	11,581,900	(776,425)	18,518,106	29,323,581
Fund Balances:				
Beginning of year	9,090	20,436,099	6,133,475	26,578,664
End of year	\$ 11,590,990	19,659,674	24,651,581	\$ 55,902,245

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Net Assets
Proprietary Funds

June 30, 2003

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Assets:			
Cash and cash equivalents	\$ 3,338,135	54,017	\$ 3,392,152
Investments, at fair value:			
Cash Management Fund	182,874,683	6,790,325	189,665,008
Total investments	182,874,683	6,790,325	189,665,008
Receivables:			
Other	72,952,113	7,124,720	80,076,833
Due from other funds	4,391,212	—	4,391,212
Total receivables	77,343,325	7,124,720	84,468,045
Total assets	\$ 263,556,143	13,969,062	\$ 277,525,205
Liabilities:			
Accounts payable and accrued expenses	\$ 17,976,104	—	\$ 17,976,104
Incurred but not reported claims	182,510,000	4,700,000	187,210,000
Deferred revenue	4,540,421	—	4,540,421
Due to other funds	416,639	949,367	1,366,006
Total liabilities	205,443,164	5,649,367	211,092,531
Net Assets	\$ 58,112,979	8,319,695	\$ 66,432,674

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)
Proprietary Funds
Year Ended June 30, 2003

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Operating Revenues:			
Contributions:			
Members	\$ 74,968,997	371,825	\$ 75,340,822
Employers	1,345,971,616	65,292,271	1,411,263,887
Total operating revenues	1,420,940,613	65,664,096	1,486,604,709
Operating Expenses:			
Benefits	1,300,063,698	62,613,162	1,362,676,860
Administrative expense	4,378,810	—	4,378,810
Total operating expenses	1,304,442,508	62,613,162	1,367,055,670
Operating income (loss)	116,498,105	3,050,934	119,549,039
Non-operating revenue:			
Investment income:			
Net appreciation (depreciation) in fair value of investments	(32,272)	(6,774)	(39,046)
Interest	1,347,162	70,687	1,417,849
Total non-operating revenue	1,314,890	63,913	1,378,803
Change in net assets (deficit)	117,812,995	3,114,847	120,927,842
Net Assets (deficit):			
Beginning of year	(59,700,016)	5,204,848	(54,495,168)
End of year	\$ 58,112,979	8,319,695	\$ 66,432,674

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2003

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Cash flows from operating activities:			
Receipts - Employer Contributions	\$ 1,343,967,055	62,708,972	\$ 1,406,676,027
Receipts - Member Contributions	74,660,607	363,234	75,023,841
Benefit payments	(1,239,041,323)	(60,274,461)	(1,299,315,784)
Premium payments	(50,419,180)	—	(50,419,180)
Administrative expense	(4,369,731)	—	(4,369,731)
Net cash provided by operating activities	124,797,428	2,797,745	127,595,173
Cash flows from investing activities:			
Interest and dividends	1,347,162	70,687	1,417,849
Sale/purchase of investments	(126,833,748)	(2,914,966)	(129,748,714)
Net cash provided by investing activities	(125,486,586)	(2,844,279)	(128,330,865)
Increase/decrease in cash equivalents	(689,158)	(46,534)	(735,692)
Cash and cash equivalents beginning of year	4,027,293	100,551	4,127,844
Cash and cash equivalents end of year	\$ 3,338,135	54,017	\$ 3,392,152
Reconciliation of operating income to net cash provided by operating activities			
Operating Income	\$ 116,498,105	3,050,934	\$ 119,549,039
Adjustments to reconcile operating income to net cash used by operating activities:			
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivable	(1,403,035)	(2,591,890)	(3,994,925)
(Increase)/decrease in interfund receivable	(909,917)	—	(909,917)
Increase/(decrease) in accounts payable	11,151,310	1,428,783	12,580,093
Increase/(decrease) in service charges payable	—	—	0
Increase/(decrease) in due to other funds	(539,035)	909,918	370,883
Total adjustments	8,299,323	(253,189)	8,046,134
Net cash provided by operating activities	\$ 124,797,428	2,797,745	\$ 127,595,173

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2003

	PENSION TRUST FUNDS
Assets:	
Cash and cash equivalents	\$ 3,641,789
Investments, at fair value:	
Cash Management Fund	2,651,330,102
Bonds	612,115,588
Common Pension Fund A	29,669,719,913
Common Pension Fund B	17,051,907,985
Common Pension Fund D	10,938,755,788
Common and preferred stocks	769,808,650
Mortgages	2,082,304,400
Total investments	63,775,942,426
Receivables:	
Contributions:	
Members	168,239,233
Employers	412,870,458
Accrued interest and dividends	353,235,908
Members' loans	1,186,105,045
Other	38,587,934
Due from other funds	—
Total receivables	2,159,038,578
Total assets	\$ 65,938,622,793
Liabilities:	
Accounts payable and accrued expenses	\$ 35,859,580
Retirement benefits payable	350,270,987
NCGI premiums payable	10,142,884
Cash overdraft	1,290,290
Total liabilities	397,563,741
Net Assets:	
Held in trust for pension benefits	\$ 65,541,059,052

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2003

	AGENCY FUNDS
Assets:	
Cash and cash equivalents	\$ 476,904
Investments, at fair value:	
Cash Management Fund	19,033,768
Total investments	19,033,768
Receivables:	
Contributions:	
Employers	2,779,531
Other	28,170
Due from other funds	5,115,011
Total receivables	7,922,712
Total assets	\$ 27,433,384
Liabilities:	
Accounts payable and accrued expenses	\$ 18,598,669
Participant distributions payable	3,807,568
Pension adjustment payroll payable	991,440
Due to State of New Jersey	2,064,373
Due to other funds	1,971,334
Total liabilities	27,433,384
Net Assets:	
Held in trust for pension benefits	\$ —

See accompanying notes to financial statements.



STATE OF NEW JERSEY
 DIVISION OF PENSIONS AND BENEFITS
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 Year Ended June 30, 2003

	PENSION TRUST FUNDS
Additions:	
Contributions:	
Members	\$ 1,062,340,136
Employers	305,913,721
Other	12,374,992
Total contributions	1,380,628,849
Investment income:	
Net appreciation in fair value of investments	16,762,909
Interest	1,501,101,246
Dividends	505,310,345
	2,023,174,500
Less: investment expense	9,252,816
Net investment income	2,013,921,684
Total additions	3,394,550,533
Deductions:	
Benefits	4,840,497,014
Refunds of contributions and due General Fund	100,119,056
Administrative expenses	34,545,410
Total deductions	4,975,161,480
Change in net assets	(1,580,610,947)
Net assets - Beginning of year	67,121,669,999
Net assets - End of year	\$ 65,541,059,052

See accompanying notes to financial statements.



STATE OF NEW JERSEY
 DIVISION OF PENSIONS AND BENEFITS
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 Year Ended June 30, 2003

	AGENCY FUNDS
Additions:	
Contributions:	
Members	\$ 673,034
Employers	129,345,617
Total contributions	130,018,651
Investment income:	
Net (depreciation) in fair value of investments	(17,612)
Interest	426,830
Total investment income	409,218
Total additions	130,427,869
Deductions:	
Benefits	128,400,036
Refunds of contributions and due General Fund	2,027,833
Total deductions	130,427,869
Change in net assets	—
Net assets - Beginning of year	—
Net assets - End of year	\$ —

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2003

(1) DESCRIPTION OF THE FUNDS

The State of New Jersey sponsors and administers the following benefit funds which have been included in the basic financial statements of the State of New Jersey Division of Pensions and Benefits (the Division):

Governmental funds:

State Health Benefits Program Fund (SHBP) - State
Dental Expense Program Fund (DEPF)
Prescription Drug Program Fund (PDPF) - State

Proprietary funds:

State Health Benefits Program Fund (SHBP) - Local
Prescription Drug Program Fund (PDPF) - Local

Fiduciary funds:

Pension trust funds:

Consolidated Police and Firemen's Pension Fund (CPFPPF)
Judicial Retirement System (JRS)
Police and Firemen's Retirement System (PFRS)
Prison Officers' Pension Fund (POPF)
Public Employees' Retirement System (PERS)
State Police Retirement System (SPRS)
Teachers' Pension and Annuity Fund (TPAF)
Supplemental Annuity Collective Trust (SACT)
Central Pension Fund (CPF)
New Jersey State Employees Deferred Compensation Plan (NJSEDCP)
Alternate Benefit Long-Term Disability Fund (ABPLTD)

Agency funds:

Pension Adjustment Fund (PAF)
Alternate Benefit Program Fund (ABP)

Individual financial reports have been prepared for the above funds. These financial reports, which can be obtained from the Division of Pensions and Benefits, provide a description of the nature and purpose of each individual fund. A description of the contribution requirements and benefit provisions for each fund is provided in notes 3 and 4.

The pension trust funds are single-employer defined benefit pension plans, except for the PERS and PFRS, which are cost-sharing multiple-employer defined benefit plans, the TPAF and CPFPPF, which are cost-sharing defined benefit plans with a special funding situation, and the SACT and NJSEDCP, which are single-employer defined contribution plans.

The financial statements of the State of New Jersey Division of Pensions and Benefits have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Division's accounting policies are described below.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2003

(1) **DESCRIPTION OF THE FUNDS, Continued**

Reporting entity:

The financial statements include all funds which are administered by the Division over which operating controls are with the individual funds, systems, or trusts governing Boards and/or the State of New Jersey. The financial statements of the funds, systems, and trusts are included in the financial statements of the State of New Jersey; however, the accompanying financial statements are intended to present the funds administered by the Division and not the State of New Jersey as a whole.

Fund accounting:

The accounts of the Division are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds:

Governmental funds account for proceeds of specific revenue sources that are legally restricted for expenditure for specified purposes.

Proprietary funds:

Proprietary funds account for operations that are financed and operated in a manner similar to business enterprises where the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Fiduciary funds:

Pension trust funds - Account for monies received for, expenses incurred by and the net assets available for plan benefits of the various public employee retirement systems.

Agency funds - Agency funds are used to account for the assets that the Division holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to government-wide statements and funds is determined by its measurement focus. All funds, except for the governmental funds and the agency funds, are accounted for using an economic resources measurement focus. Funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

The governmental funds are accounted for using a current financial resources measurement focus and modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, i.e.,



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2003

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

revenues and other financing additions, and decreases, i.e., expenditures and other deductions, in net assets.

The accrual basis of accounting is used for measuring financial position and changes in net assets of pension trust funds. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the pension trust funds conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Plan assets are recorded at fair value. Employer contributions are recognized when payable to the funds. Benefits and refunds are recognized when payable in accordance with the terms of the funds.

The modified accrual basis of accounting is used for measuring financial position and changes in financial position for the governmental funds. Under this method, revenues are recognized when measurable and available, and expenditures are recognized when incurred and measurable.

Incurred but not reported (IBNR) claims are recognized as expenses and liabilities in the government-wide financial statements under the full accrual basis. For the governmental funds, IBNR claims are recognized to the extent matured.

The focus of proprietary funds measurement is upon determination of changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

The Division applied all governmental standards of accounting and financial reporting prior to November 30, 1989.

Financial Reporting Model:

In fiscal year 2002, the Division adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*

Statement No. 37 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires governmental-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Statement No. 34 also requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of the Funds' financial activities.

Capital Assets:

Capital assets utilized by the Division include equipment which is owned by the State of New Jersey.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2003

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. Mortgage backed securities 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 values.

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 Funds. 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.

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 Fund, 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 Funds, through the State Treasurer, and custodian banks as agents for the Funds. 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.

In 2001, the Board of Trustees approved that the Post-Retirement Medical Fund earn a rate of return consistent with the Funds and henceforth. In prior years, the Post-Retirement Medical Fund earned a statutorily determined fixed rate of return of 8.75%.

GASB Statement No. 3 requires disclosure of the level of custodial risk assumed by the Funds. Category 1 includes investments that are insured or registered or for which the securities are held by the Funds or its agent in the Funds' name. As of June 30, 2003, all investments held by the Funds (other than mortgage



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2003

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

backed securities 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 Funds. 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 Funds. The custodian banks as agents for the Funds maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Funds.

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

Significant Legislation:

Chapter 108, P.L. 2003, effective July 1, 2003, provides that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by the PERS as follows: 20% for payments due in State fiscal year 2005; not more than 40% in fiscal year 2006; not more than 60% in fiscal year 2007; and not more than 80% in fiscal year 2008. According to the Budget Appropriations Act of 2004, the State as well will pay pension obligations through a five-year phase-in. In fiscal year 2004, the State will pay only 20% of the normal and accrued liability pension costs by using the benefit enhancement fund.

The Chapter 108, P.L. 2003 also provides that local employer PFRS normal and accrued liability contributions will be 20% of the amount certified by the PFRS for payments due in State fiscal year 2004 and thereafter a percentage of the amount certified by the PFRS as the State Treasurer will determine, but not more than 40% in fiscal year 2005, not more than 60% in fiscal year 2006, and not more than 80% in fiscal year 2007. According to the Budget Appropriations Act of 2004, the State as well will pay pension obligations through a five-year phase-in.

Chapter 42, P.L. 2002 permitted local government units to issue refunding bonds to retire an unfunded accrued liability resulting from early retirement benefits under TPAF, PERS, or PFRS, effective July 12, 2002.

Chapter 54, P.L.2002 allows members of the JRS to elect to receive a reduced retirement allowance in order to provide a benefit to a named beneficiary, effective September 2, 2002. The new option (option 5) pays benefit equivalent to the full amount, three-quarters, one-half, or one-quarter of the retirement allowance to the beneficiary. If the beneficiary predeceases the member, the retirement allowance increases to the maximum retirement allowance for member's lifetime, provided that the benefit is certified by the actuary to be of equivalent actuarial value.

Chapter 23, P.L. 2002 provided early retirement incentive benefits, under TPAF, PERS, or ABP, to State employees, who meet specified age and service requirements and who retire within a specified time period that generally extended from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20, but less than 25, years of service credit; and an additional monthly benefit of \$500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10,



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2003

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

but not more than 20, years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit.

Chapter 11, P.L. 2002, effective March 26, 2002, allowed the State to use net assets in post-retirement medical (PRM) fund to cover required pay-as-you-go medical premiums under TPAF and PERS. This legislation also suspended in fiscal years 2002 and 2003 the additional PRM contribution to increase the fund balance by 1/2 of 1% of active member salaries for the valuation period. The additional PRM contribution will resume in fiscal year 2004 and will be computed to provide an increase in the reserve fund of 3/5 of 1% of active member salaries for the valuation period.

Subsequent Events:

The new legislations P.L. 2003, effective July 14, 2003, provide employees of local employers with additional retirement benefits through early retirement incentive programs: Chapter 127 for a public agency other than State agencies under PERS; Chapter 128 for a county, a county college, or a municipality under PERS, TPAF, or ABP; Chapter 129 for a local school board or educational services commission under PERS or TPAF; and Chapter 130 for PFRS local. Any employee who was eligible, or could have been if the employer elected, to participate in the State early retirement incentive program offered in 2002 pursuant to Chapter 23, P.L. 2002, is not eligible for the early retirement incentive benefits under this law.

Membership and Contributing Employers:

Membership and contributing employers of the Pension Trust Funds consisted of the following at 6/30/02, the date of the most recent actuarial valuations (6/30/03 for SACT, CPF, NJSEDCP, and ABPLTD):

	JRS	PFRS	PERS	SPRS	TPAF	POPF	CPFPF	SACT	CPF
Retiree members:									
Retirees and beneficiaries receiving benefits currently	384	25,501	107,549	1,969	56,237	231	1,198	670	355
Terminated employees entitled to benefits but not yet receiving them	2	66	1,997	—	1,161	—	—	—	—
Total retiree members	386	25,567	109,546	1,969	57,398	231	1,198	670	355
Active members:									
Vested	223	26,073	155,861	1,825	77,054	—	—	4,537	—
Non-vested	215	17,518	135,108	968	65,106	—	—	—	—
Total active members	438	43,591	290,969	2,793	142,160	—	—	4,537	—
Total	824	69,158	400,515	4,762	199,558	231	1,198	5,207	355
Contributing Employers	1	588	1,672	1	114	1	1	—	1



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2003

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

	NJSEDCP	ABPLTD
Retiree members:		
Retirees and beneficiaries receiving benefits currently	2,678	—
Terminated employees entitled to benefits but not yet receiving them	—	—
Total retiree members	2,678	—
Active members:		
Vested	30,401	105
Non-vested	—	—
Total active members	30,401	105
Total	33,079	105
Contributing Employers	—	1

Membership in the other funds, systems, and trusts administered by the Division consisted of the following as of June 30, 2003:

	STATE	LOCAL	TOTAL
Health Benefits Program Fund*	138,671	211,996	350,667
Prescription Drug Program Fund	106,391	34,948	141,339
Dental Expense Program Fund	96,911	—	96,911
Alternate Benefit Program Fund**	14,134	2,807	16,941
Pension Adjustment Fund	84,286	92,536	176,822

* active and retired participants

** including those receiving long-term disability benefits

Members' Loans:

Members of JRS, PFRS, SPRS, PERS and TPAF who have at least three years of service in the Funds 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.

Administrative Expenses:

Administrative expenses are paid by the funds, systems, and trusts to the State of New Jersey, Department of the Treasury and are included in the accompanying statements of changes in net assets and fund balances, except for administrative expenses of the CPF which are expensed by the State of New Jersey, who is responsible for such costs.



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(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Income Tax Status:

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the funds, systems, and trusts are qualified plans as described in Section 401(a) of the Internal Revenue Code.

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 institutions 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, all cash balances maintained in financial institutions as of June 30, 2003, which includes funding for the July 1, 2003 retirement payroll, are designated category 3. The cash balances of all funds total \$7,613,756.

(3) **CONTRIBUTIONS**

Contribution Requirements - JRS

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 actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey. As a result of this legislation, the State of New Jersey was not required to make a contribution to the JRS for the years between 1997 and 2002.

The State made a contribution of \$8,467,287 to satisfy the actuarially accrued liability in fiscal year 2003.

Contribution Requirements - CPFPF

The contribution policy is set by N.J.S.A. 43:16 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. Contributions by active members are based on 7% of their salary. Employers are required to contribute at an actuarially determined rate.

Contribution Requirements - PFRS

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are 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. Members contribute at a uniform rate of 8.5% of base salary.



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(3) CONTRIBUTIONS, Continued

For fiscal year 2003, the 68% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset required normal contributions of the State of New Jersey and the local participating employers.

In 2003 and 2002, excess valuation assets were utilized to fund required State contributions of \$110,568,773 and \$107,098,598, respectively.

In 2003, actuarially determined excess valuation assets also covered required local employer contributions of \$283,657,654. In accordance with legislation passed in 2001 (Chapter 44, P.L. 2001), excess valuation assets were recognized to reduce 2001 local employer contributions by \$150 million to approximately \$75 million. This legislation required that the savings realized by counties and municipalities as a result of this reduction be used for property tax relief.

Chapter 108 (P.L. 2003), effective July 1, 2003, provides that local employer PFRS normal and accrued liability contributions will be 20% of the amount certified by the PFRS for payments due in State fiscal year 2004 and thereafter a percentage of the amount certified by the PFRS as the State Treasurer will determine, but not more than 40% in fiscal year 2005, not more than 60% in fiscal year 2006, and not more than 80% in fiscal year 2007. According to the Budget Appropriations Act of 2004, the State as well will pay pension obligations through a five-year phase-in.

Contribution Requirements - POPF

The contribution policy is set by N.J.S.A. 43:7 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. Contributions by active members are based on 6% of their salary. Employers are required to contribute at an actuarially determined rate.

Contribution Requirements - PERS

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. The full normal employee contribution rate is 5% of base salary. However, as a result of special legislation (Chapter 415, P.L. 1999), the employee rate was reduced to 3% of base salary effective January 1, 2000. The rate will remain at 3% for as long as actuarially determined excess valuation assets are available in the PERS. On the other hand, the rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) is 7.5% of base salary, and the rate for the Workers' Compensation Judges Part of the PERS (Chapter 259, P.L. 2001) is 5% of base salary. Employers are 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. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were fund-



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Notes to Financial Statements, Continued
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(3) CONTRIBUTIONS, Continued

ed on an actuarial reserve basis. Beginning in 1996, the State has made an additional contribution to the Post-Retirement Medical Reserve Fund to ensure an increase in the fund balance of 1/2 of 1% of the salary of active state employees.

For fiscal year 2003, the 84% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State and local employers were not required to make a normal contribution to the PERS between the years 1997 and 2003. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset required normal contributions of the State of New Jersey and the local participating employers.

The State made a contribution of \$69.9 million for fiscal year 2003 post-retirement medical (PRM). In addition, the PRM reserve of \$66.5 million was used to cover additional premiums due in fiscal year 2003. The State made no PRM contribution in fiscal year 2002. Legislation passed in 2002 (Chapter 11, P.L. 2002) allowed the State to use net assets in PRM Fund to cover required pay-as-you-go medical premiums. This legislation also suspended in fiscal years 2002 and 2003 the additional PRM contribution to increase the fund balance by 1/2 of 1% of active member salaries for the valuation period. The additional PRM contribution will resume in fiscal year 2004 and will be computed to provide an increase in the reserve fund of 3/5 of 1% of active member salaries for the valuation period.

To fund the benefit increases provided by Chapter 133, the legislation provided for the use of excess assets. A special benefit enhancement fund (BEF) was established from which the required normal contributions for the increased benefits will be charged. To fund the accrued liabilities incurred by the PERS, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets.

The BEF will also provide funding for the benefit increases under Chapter 353, P.L. 2001. Actuarially determined excess valuation assets will cover the additional accrued liability incurred by the retirement system. No additional formula State contribution is required in fiscal year 2004; instead, that contribution will be covered by the BEF.

Chapter 108 (P.L. 2003) provides that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by the PERS as follows: 20% for payments due in State fiscal year 2005; not more than 40% in fiscal year 2006; not more than 60% in fiscal year 2007; and not more than 80% in fiscal year 2008. According to the Budget Appropriations Act of 2004, the State as well will pay pension obligations through a five-year phase-in. In fiscal year 2004, the State will pay 20% of the normal and accrued liability pension cost by using the benefit enhancement fund.

Contribution Requirements - SPRS

The contribution policy is set by N.J.S.A. 53:5A-34 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 contribute at a uniform rate of 7.5% of base salary. Employers are required to con-



STATE OF NEW JERSEY
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Notes to Financial Statements, Continued
June 30, 2003

(3) CONTRIBUTIONS, Continued

tribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Contribution Requirements - TPAF

The contribution policy is set by N.J.S.A. 18:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. In accordance with legislation passed in 2001 (Chapter 133, P.L. 2001), the employee contribution rate was lowered to 3% effective January 1, 2003. Prior to this date, employees had been contributing at a rate of 4.5%. The rate will remain at 3% for as long as surplus assets are available in the TPAF. Employers are 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. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial reserve basis. Beginning 1996, the State has made an additional contribution to the Post-Retirement Medical Reserve Fund to ensure an increase in the fund balance of 1/2 of 1% of the salary of active state employees.

For fiscal year 2003, the 84% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State and local employers were not required to make a normal contribution to the TPAF in between the years 1997 and 2003. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset required normal contributions of the State of New Jersey and the local participating employers.

The State made a contribution of \$298.3 million for fiscal year 2003 post-retirement medical (PRM). In addition, the PRM reserve of \$43.9 million was used to cover additional premiums due in fiscal year 2003. The State made no PRM contribution in fiscal year 2002. Legislation passed in 2002 (Chapter 11, P.L. 2002) allowed the State to use net assets in PRM Fund to cover required pay-as-you-go medical premiums. This legislation also suspended in fiscal years 2002 and 2003 the additional PRM contribution to increase the fund balance by 1/2 of 1% of active member salaries for the valuation period. The additional PRM contribution will resume in fiscal year 2004 and will be computed to provide an increase in the reserve fund of 3/5 of 1% of active member salaries for the valuation period.

To fund the benefit increases provided by Chapter 133, the legislation provided for the use of excess assets. A special benefit enhancement fund (BEF) was established from which the required normal contributions for the increased benefits will be charged. To fund the accrued liabilities incurred by the TPAF, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets.

The BEF will also provide funding for the benefit increases under Chapter 353, P.L. 2001. Actuarially determined excess valuation assets will cover the additional accrued liability incurred by the retirement fund.



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Notes to Financial Statements, Continued
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(3) CONTRIBUTIONS, Continued

No additional formula State contribution is required in fiscal year 2004; instead, that contribution will be covered by the BEF.

According to the Budget Appropriations Act of 2004, the State will pay pension obligations through a five-year phase-in.

Contribution Requirements - SACT

Participants contribute through payroll deductions and may contribute from 1% to 10% of their base salary, as defined. Contributions are voluntary and may be suspended at the beginning of any quarter. Contributions under the Tax Sheltered Supplemental Annuity Plan are subject to Federal law limitations and qualify for tax-sheltered treatment permitted under Section 403(b) of the Internal Revenue Code. Participants are always fully vested for the accumulated units in their accounts.

Contribution Requirements - CPF

The State of New Jersey makes an annual appropriation payment to the CPF to pay current year benefits. The contribution requirements were established by the aforementioned statutes and are not actuarially determined. An actuarial valuation is not performed to determine the actuarial implications of the contribution requirements.

The contribution amount required and paid by the State of New Jersey for the fiscal year ended June 30, 2003 was \$393,692.

Contribution Requirements - SHBP- State and Local

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP) are collected from the State of New Jersey, participating local employers, active members, retired members, the Public Employees' Retirement System (PERS), and the Teachers' Pension and Annuity Fund (TPAF). The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to the SHBP on a monthly basis. Local employer payments, active and retired member contributions, and payments from the PERS and TPAF are generally received on a monthly basis. Certain State employees share in the cost of their premiums, as provided by Chapter 8, P.L. 1996.

Under the provisions of Chapter 8, P.L. 1996, the SHBP implemented premium sharing for employees covered under the State component of the program. Chapter 8 authorizes the State to negotiate premium sharing in the collective bargaining agreements governing employment of State employees. Premium sharing also applies to Retired group coverage for employees who attain 25 years of creditable pension service after July 1, 1997 or who retire on a Disability retirement after that same date. Those employees not represented by any bargaining unit premium share in accordance with rules established by the State Health Benefits Commission. Local group employees are not affected by the premium sharing provisions of Chapter 8, P.L. 1996.

Contribution Requirements - PDPF- State and Local

Contributions to pay for the premiums of participating employees in the Prescription Drug Plan are collected from the State of New Jersey, participating local employers, and former active and retired members



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(3) CONTRIBUTIONS, Continued

who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are distributed to the Prescription Drug Plan on a monthly basis. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Contribution Requirements - DEPF

Contributions to pay for the premiums of participating employees in the State Employee Dental Program are collected from the State of New Jersey, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared equally by the State of New Jersey and active State employees. Former and retired employees who have chosen to participate under the rules of COBRA pay the full cost of the premium. The State of New Jersey provides contributions through State appropriations. These appropriations are distributed to the SHBP on a biweekly and monthly basis. The active member share of the cost of premiums is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis.

Contribution Requirements - NJSEDCP

Participants may defer between 1% and 100% of their salary and less any 414h reductions or \$12,000 annually. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of twice the annual maximum in the three years immediately preceding the retirement age at which no reduction in benefits would be applicable. The employer does not make contributions to the Plan.

Contribution Requirements - ABPLTD

The State of New Jersey makes an annual contribution to the ABPLTD, as required, toward the cost of long-term disability benefits which extend beyond the calendar year following the year in which the disability benefits commence for those with a benefit commencement date on or after October 1, 1986.

Contribution Requirements - ABP

Members contribute a mandatory 5% of base or contractual salary that is tax deferred under the 414(h) provisions of the Internal Revenue code. Members are also permitted to make voluntary federal tax-deferred contributions under Internal Revenue Code Section 403(b). The State of New Jersey pays the employer contribution for all State and county employees participating in the plan. The employer contribution is based on 8% of base or contractual salary. The State of New Jersey is also responsible for the cost of noncontributory life insurance coverage and long term disability coverage for its plan members.

Contribution Requirements - PAF

The contribution requirements were established by N.J.S.A. 43:3B-4. The State of New Jersey is required to make an annual appropriation payment to fund the cost-of-living increases payable to retirees and beneficiaries of retired members in the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund and the Central Pension Fund. Funding is on a pay-as-you-go basis.

(4) VESTING AND BENEFITS

Vesting and Benefit Provisions - JRS

The vesting and benefit provisions are set by N.J.S.A. 43:6A and amended and supplemented by Chapter



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(4) VESTING AND BENEFITS, Continued

470, P.L. 1981. The JRS provides retirement benefits as well as death and disability benefits. Retirement benefits for age and years of service are as follows:

AGE	YEARS OF JUDICIAL SERVICE	BENEFIT AS A PERCENTAGE OF FINAL SALARY
70	10	75%
65	15	75
60	20	75

AGE	YEARS OF JUDICIAL SERVICE	YEARS OF PUBLIC AND JUDICIAL SERVICE	BENEFIT AS A PERCENTAGE OF FINAL SALARY
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.

Vesting and Benefit Provisions - CPFPP

The vesting and benefit provisions are set by N.J.S.A. 43:16. The CPFPP provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, as defined, plus 1% for each creditable year of service, as defined, in excess of 25 years, but not to exceed 30 years. Members are always fully vested in their own contributions.

Chapter 4, P.L. 2001 provided increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase is 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions - PFRS

The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Final compensation equals the compensation for the final year of service prior to retirement. Members may seek special retirement after achieving 25 years of creditable service or they may elect deferred retirement after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of



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Notes to Financial Statements, Continued
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(4) VESTING AND BENEFITS, Continued

service. The annual benefit under special retirement is 65% of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 70 percent of final compensation.

Widow/widowers of members retired since December 18, 1967 receive 50% of the retiree's final compensation. The minimum annual widow/widower's benefits of an accidental disability retiree prior to December 18, 1967 and of all retirees since December 18, 1967 is \$4,500.

Members are always fully vested for their own contributions. In the case of death before retirement, members' beneficiaries are entitled to full payment of members' contributions.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The cost-of-living increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions.

Chapter 4, P.L. 2001 provided increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase is 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions - POPF

The vesting and benefit provisions are set by N.J.S.A. 43:7. The POPF provides retirement, as well as death and disability benefits. Retirement benefits are available after 25 years of service or at age 55 with 20 years of service. The benefit is in the form of a life annuity equal to the greater of (a) 2% of average final compensation up to the 30 years of service, plus 1% of average final compensation for each year of service above 30 and prior to age 65; (b) 50% of final pay; or (c) for members with 25 or more years of service, 2% of average final compensation for each year of service up to 30 years, plus 1% for each year in excess of 30 years. Average final compensation equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years).

Members are always fully vested for their own contributions.

Vesting and Benefit Provisions - PERS

The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The PERS provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after eight to ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the PERS. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit (as defined). Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement



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(4) VESTING AND BENEFITS, Continued

after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving eight to ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for earnings on their contributions at 2% per annum. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Chapter 23, P.L. 2002 provided early retirement incentive benefits to State employees who meet specified age and service requirements and who retire within a specified time period that generally extends from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20, but less than 25, years of service credit; and an additional monthly benefit of \$500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10, but not more than 20, years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit.

Chapter 353, P.L. 2001 provided an increase in the special veterans' retirement allowance and the ordinary and accidental disability retirement allowances. The special veterans retirement allowance increased from 50% to 54.5% of the members' compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance increased from 40% to 43.6% of final average compensation, and the accidental disability retirement allowance increased from 66.66% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which was effective October 2001.

Chapter 133, P.L. 2001 increased the retirement benefits under service, deferred, and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increased the retirement benefit for veteran members with 35 or more years of service and reduced the age qualification from 60 to 55. Existing retirees and beneficiaries received a comparable percentage increase in their retirement allowances. This benefit enhancement was effective with the November 1, 2001 benefit payments.

Chapter 259, P.L. 2001 amended the PERS statutes and created special retirement benefits for members employed as workers' compensation judges. PERS members entitled to the new benefits are the Chief Judge, the administrative supervisory judges, the supervisory judges, and the judges of compensation of the Division of Workers' Compensation of the Department of Labor. Those in eligible titles would receive



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(4) VESTING AND BENEFITS, Continued

retirement benefits comparable to those provided to members of the Judicial Retirement System. The effective date of this legislation was December 6, 2001.

Chapter 366, P.L. 2001 provided enhanced pension benefits to selected individuals with County Prosecutor Offices and in the Division of Criminal Justice.

Vesting and Benefit Provisions - SPRS

The vesting and benefit provisions are set by N.J.S.A. 53:5A. The SPRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service (as defined). Retirement benefits are available after 20 years of service (as defined) at any age with mandatory retirement at age 55. The retirement benefit is based upon final compensation, which is defined as salary (as defined) plus maintenance allowance (as defined) during the last 12 months prior to retirement, and is a life annuity equal to the greater of the following: (a) 50% of final compensation; (b) for members retiring due to mandatory retirement, 50% of final compensation, plus 2% for each year of service in excess of 20 years to a maximum of 60% of final compensation; or (c) for members retiring with 25 or more years of service, 65% of final compensation, plus 1% for each year of service in excess of 25 years, to a maximum of 70% of final compensation. Members may elect deferred retirement after ten years of service in which case benefits in the form of life annuity would begin at age 55 equal to 2% of final compensation for each year of service up to 20 years.

Members are always fully vested for their own contributions.

Vesting and Benefit Provisions - TPAF

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The TPAF provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the TPAF. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits (COLA) after 24 months of retirement.



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Notes to Financial Statements, Continued
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(4) VESTING AND BENEFITS, Continued

Chapter 23, P.L. 2002 provided early retirement incentive benefits to State employees who meet specified age and service requirements and who retire within a specified time period that generally extends from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20, but less than 25, years of service credit; and an additional monthly benefit of \$500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10, but not more than 20, years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit.

Chapter 353, P.L. 2001 provided an increase in the special veterans' retirement allowance and the ordinary and accidental disability retirement allowances. The special veterans retirement allowance increased from 50% to 54.5% of the members' compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance increased from 40% to 43.6% of final average compensation, and the accidental disability retirement allowance increased from 66.66% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which was effective October 2001.

Chapter 133, P.L. 2001 increased the retirement benefits under service, deferred, and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increased the retirement benefit for veteran members with 35 or more years of service and reduced the age qualification from 60 to 55. Existing retirees and beneficiaries received a comparable percentage increase in their retirement allowances. This benefit enhancement was effective with the November 1, 2001 benefit payments.

Vesting and Benefit Provisions - SACT

Upon retirement, a participant is paid a single cash payment or may elect various forms of monthly annuities or reduced annuity payments with a beneficiary provision based on the value of the participant's account in the month of retirement. Upon the death of a participant, the designated beneficiary may elect to receive a lump sum equal to the account value or an annuity under any of the settlement options which a retiree could elect under the Trust. Upon termination of employment and withdrawal from the basic retirement systems, a participant must also withdraw his account under the Trust as a lump-sum settlement.

Benefit Provisions - CPF

Benefits are payable under various State of New Jersey acts in an amount equal to one-half of the compensation received by the participant for his/her service. In the case of Disabled Veterans' Pensions and Surviving Spouses the amount is \$62.50 per month.

Vesting and Benefit Provisions - SHBP - State and Local

The Program provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. The State of New Jersey also provides free coverage to members



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(4) VESTING AND BENEFITS, Continued

of the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service or on a disability retirement. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents.

Benefit Provisions - PDPF - State and Local

The Program provides coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State and local employees are eligible for coverage after 60 days of employment.

Benefit Provisions - DEPF

The Program provides coverage to employees and their eligible dependents for dental services performed by a qualified dentist. State employees are eligible for coverage after 60 days of employment.

Vesting and Benefit Provisions - NJSEDCP

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries as required in Government Accounting Standards Board Statement No. 32. Plan members are fully vested for the current valuation of their account from the date of enrollment in the Plan. Benefits are payable upon separation from service with the State of New Jersey.

Benefit Provisions - ABPLTD

Members who are totally disabled due to an occupational or non-occupational condition are eligible to receive a regular monthly benefit equal to 60% of the base salary earned over the 12 month period preceding the onset of the disability. The long-term disability benefits continue until such time as the member retires or attains the age of 70, whichever comes first.

Vesting and Benefit Provisions - ABP

The Alternate Benefit Program provides retirement benefits, disability benefits, and group life insurance benefits to eligible participants. Retirement benefits are payable upon separation from service with no age or service requirements. However, distributions under age 55 are limited to employee contributions and accumulations. The remaining employer's contributions and earnings are available for distribution upon attaining age 55. Participants are immediately vested if the participant has an existing retirement account containing employer and employee contributions based on employment in public education, or is an active or vested member of a federal or state retirement system.

Benefit Provisions - PAF

The pension adjustment program covers eligible retirees and survivors of the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund, and Central Pension Fund. Eligible retirees and/or survivors are those who have been retired at least 24 months.

Those eligible for benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average



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(4) VESTING AND BENEFITS, Continued

consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Chapter 4, P.L. 2001 provided increased benefits to certain members of the Consolidated Police and Firemen's Pension Fund who retired prior to December 29, 1989 with at least 25 years of creditable service. The benefit increase is effective November 1, 2001. The maximum amount of the increase is 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65% to 70% of final compensation.

As a result of this legislation, cost-of-living benefits payable to eligible retirees will also increase. The State, not the local municipalities, will be responsible for these costs.

(5) FUNDS

The Funds maintain the following legally required funds as follows:

Members' Annuity Savings Fund - JRS (\$22,943,223); TPAF (\$6,038,217,700); PERS (\$6,246,682,986); PFRS (\$2,134,093,084); SPRS (\$133,657,431)

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

Contingent Reserve Fund - JRS (\$144,763,034); TPAF (\$2,058,849,317); PERS (\$1,137,846,163); SPRS (\$936,731,005)

The Contingent Reserve Fund is credited with the contributions of contributing employers other than post-retirement medical contributions. Interest earnings, after crediting the Accumulated Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund - JRS (\$131,691,801); TPAF (\$17,667,357,328); PERS (\$12,722,540,303); PFRS (\$7,513,073,555); SPRS (\$475,350,429)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, contributory group insurance premiums, and post-retirement medical 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 or Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (8.75% for 2003) is credited to the Retirement Reserve Fund.

Retirement Reserve Fund - POPF (\$17,277,953)

The Retirement Reserve Fund is credited with all active member and State of New Jersey contributions and investment income. In addition, all benefits are paid from this account.

Special Reserve Fund - TPAF (\$0); PERS (\$0); PFRS (\$0)

The Special Reserve Fund is a fund to which any excess interest earnings and gains from sales and matu-



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(5) FUNDS, Continued

rities of investments are transferred and against which any losses from the sales of securities are charged. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the Funds, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund - TPAF (\$101,541,730); PERS (\$183,936,841)

The Contributory Group Insurance Premium Fund represents the accumulation of member group insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carriers. Members are required by statute to participate in the contributory group insurance plan in the first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for active members is 0.4 of 1% of salary for TPAF and 0.5 of 1% of salary for PERS, as defined.

Pension Accumulation Fund - PFRS (\$5,232,788,952)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the ASF and the Retirement Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Pension Reserve Fund - CPFPF (\$20,030,610)

The Pension Reserve Fund is credited with all active member and State of New Jersey contributions and investment income.

Reserve Fund - SHBP - State (\$11,590,990); PDPF - State (\$24,651,581); and DEPF (\$19,659,674)

The fund balances of the SHBP - State, PDPF - State, and DEPF are available to pay claims of future periods. These reserves are maintained by the Funds to stabilize rates and to meet unexpected increase in claims. Since these funds are classified as governmental funds, IBNR claims as of June 30, 2003 are reported in the State's general long-term debt account group.

Reserve Fund - SHBP - Local (\$58,112,979); PDPF - Local (\$8,319,695)

The SHBP - local has net assets of \$58,112,979 as of June 30, 2003. The deficit of the prior fiscal year was made up by a rate action.

The PDPF - local has net assets, which are available to pay claims of future periods.

Reserve Fund - Alternate Benefit - Long Term Disability (\$2,919,322)

The fund balance of the ABPLTD is available for future payments to participants.

Post-Retirement Medical Fund - TPAF (\$317,185); PERS (\$954,217)

The Post-Retirement Medical Fund is credited with employer contributions for post-retirement medical benefits, interest earnings on post-retirement medical reserves, and from which post-retirement medical premiums are paid.

Benefit Enhancement Reserve Fund - TPAF (\$682,877,236); PERS (\$669,530,604)

The Benefit Enhancement Reserve Fund is a special reserve fund from which required normal contributions to provide benefit increases under Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001 will be charged. The



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(5) FUNDS, Continued

fund was established in 2003 and credited with excess assets equivalent to member contributions for fiscal years 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the Benefit Enhancement Fund. Additional transfers will be made, as required, to maintain a fund balance equal to the present value of expected additional normal contributions due to the increased benefits. The State will be required to make contributions to the Benefit Enhancement Fund on behalf of State and local employers if excess valuation assets are not available.

Various Reserve Fund Balances as of June 30, 2003:

FUNDS	PENSION TRUST FUNDS	GOVERNMENTAL FUNDS	PROPRIETARY FUNDS
Members' Annuity Savings Fund	\$14,575,594,424		
Contingent Reserve Fund	4,278,189,520		
Retirement Reserve Fund	38,527,291,369		
Contributory Group Insurance Premium Fund	285,478,571		
Pension Accumulation Fund	5,232,788,952		
Pension Reserve Fund	20,030,610		
Reserve Fund	2,919,322	55,902,245	66,432,674
Post-Retirement Medical Fund	1,271,402		
Benefit Enhancement Reserve Fund	1,352,407,840		
Variable Accumulation Reserve Account	1,238,667,564		
Variable Benefits Reserve Account	26,419,479		
Total	\$65,541,059,053	\$55,902,245	\$66,432,674



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(6) UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Division establishes a liability for both reported and unreported claims, which includes estimates of future payments of claims and related claim adjustment expenses. The following represent changes in those aggregate liabilities for Governmental Activities and Business-Type Activities during the fiscal years 2003 and 2002:

Fiscal Year 2003

LOCAL	HEALTH BENEFITS PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Unpaid claims at beginning of year	\$ 194,423,330	\$ 3,250,000
Incurred claims:		
Provision for insured events of current year	1,300,063,699	62,613,162
Payments	(1,294,000,925)	(61,163,162)
Unpaid claims at end of year	\$ 200,486,104	\$ 4,700,000

Fiscal Year 2002

LOCAL	HEALTH BENEFITS PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Unpaid claims at beginning of year	\$ 185,526,140	\$ 2,245,015
Incurred claims:		
Provision for insured events of current year	1,172,431,169	39,654,401
Payments	(1,163,533,979)	(38,649,416)
Unpaid claims at end of year	\$ 194,423,330	\$ 3,250,000



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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)
JUDICIAL RETIREMENT SYSTEM (JRS)						
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%)
June 30, 2001	379,592,346	372,760,069	(6,832,277)	101.8%	57,800,334	(11.8%)
June 30, 2002	373,231,198	388,950,803	15,719,605	96.0%	61,873,500	25.4%
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND (CPFPF)						
June 30, 1997	\$ 70,420,937	\$ 66,004,245	\$ (4,416,692)	106.7%	N/A	N/A
June 30, 1998	62,205,001	59,272,789	(2,932,212)	104.9%	N/A	N/A
June 30, 1999	54,018,660	52,226,208	(1,792,452)	103.4%	N/A	N/A
June 30, 2000	46,078,644	46,544,429	465,785	99.0%	N/A	N/A
June 30, 2001	38,656,261	41,658,355	3,002,094	92.8%	N/A	N/A
June 30, 2002	31,842,796	36,350,384	4,507,588	87.6%	N/A	N/A
POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)						
State						
June 30, 1997	\$ 1,183,747,522	\$ 1,234,959,165	\$ 51,211,643	95.9%	\$ 315,690,310	16.2%
June 30, 1998	1,559,131,933	1,377,734,455	(181,397,478)	113.2%	346,079,078	(52.4%)
June 30, 1999	1,717,248,151	1,534,470,501	(182,777,650)	111.9%	362,949,950	(50.4%)
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1%	363,360,250	(60.0%)
June 30, 2001	1,991,299,968	1,866,140,391	(125,159,577)	106.7%	398,118,379	(31.4%)
June 30, 2002	2,032,977,241	2,046,820,189	13,842,948	99.3%	418,849,259	3.3%
Local						
June 30, 1997	10,854,173,290	11,746,169,752	891,996,462	92.4%	1,767,762,346	50.5%
June 30, 1998	13,169,957,658	12,881,842,367	(288,115,291)	102.2%	1,870,322,787	(15.4%)
June 30, 1999	14,536,570,357	13,894,951,617	(641,618,740)	104.6%	1,971,087,124	(32.6%)
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.8%	2,055,781,766	(35.0%)
June 30, 2001	16,083,153,842	16,056,446,646	(26,707,196)	100.2%	2,163,590,060	(1.2%)
June 30, 2002	16,392,195,411	17,181,142,310	788,946,899	95.4%	2,275,130,620	34.7%
PRISON OFFICERS' PENSION FUND (POPF)						
June 30, 1997	\$ 20,977,035	\$ 17,479,545	\$ (3,497,490)	120.0%	N/A	N/A
June 30, 1998	20,096,072	16,430,313	(3,665,759)	122.3%	N/A	N/A
June 30, 1999	19,137,919	15,292,629	(3,845,290)	125.1%	N/A	N/A
June 30, 2000	18,268,489	14,216,588	(4,051,901)	128.5%	N/A	N/A
June 30, 2001	18,269,899	12,994,567	(5,275,332)	140.6%	N/A	N/A
June 30, 2002	17,908,452	11,781,734	(6,126,718)	152.0%	N/A	N/A



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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
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)						
State						
March 31, 1997	\$ 6,987,217,172	\$ 6,606,707,924	\$ (380,509,248)	105.8%	\$ 2,714,991,457	(14.0%)
March 31, 1998	7,600,621,930	7,155,035,122	(445,586,808)	106.2%	2,805,791,909	(15.9%)
June 30, 1999	8,879,920,323	7,823,576,056	(1,056,344,267)	113.5%	2,928,470,790	(36.1%)
June 30, 2000	9,743,727,383	8,538,685,222	(1,205,042,161)	114.1%	3,094,280,664	(38.9%)
June 30, 2001	11,123,818,861	9,886,463,368	(1,237,355,493)	112.5%	3,288,383,788	(37.6%)
June 30, 2002	11,073,156,965	10,760,557,483	(312,599,482)	102.9%	3,511,151,199	(8.9%)
Local						
March 31, 1997	10,523,061,499	9,599,816,842	(923,244,657)	109.6%	4,407,751,955	(20.9%)
March 31, 1998	11,486,495,310	10,286,532,879	(1,199,962,431)	111.7%	4,513,357,772	(26.6%)
June 30, 1999	13,171,311,650	11,163,283,877	(2,008,027,773)	118.0%	4,655,241,261	(43.1%)
June 30, 2000	14,380,511,913	12,007,160,806	(2,373,351,107)	119.8%	4,910,962,708	(48.3%)
June 30, 2001	16,625,288,260	13,819,038,491	(2,806,249,769)	120.3%	5,240,338,738	(53.6%)
June 30, 2002	16,503,081,054	14,929,334,103	(1,573,746,951)	110.5%	5,534,322,805	(28.4%)
STATE POLICE RETIREMENT SYSTEM (SPRS)						
June 30, 1997	\$ 1,322,406,703	\$ 1,272,242,451	\$ (50,164,252)	103.9%	\$ 142,636,260	(35.2%)
June 30, 1998	1,458,600,992	1,369,277,968	(89,323,024)	106.5%	167,145,161	(53.4%)
June 30, 1999	1,600,165,104	1,469,144,146	(131,020,958)	108.9%	178,203,420	(73.5%)
June 30, 2000	1,752,423,441	1,512,909,805	(239,513,636)	115.8%	188,466,237	(127.1%)
June 30, 2001	1,829,414,353	1,626,631,656	(202,782,697)	112.5%	199,727,203	(101.5%)
June 30, 2002	1,853,684,177	1,739,427,739	(114,256,438)	106.6%	215,161,126	(53.1%)
TEACHERS' PENSION AND ANNUITY FUND (TPAF)						
March 31, 1997	\$ 22,045,481,579	\$ 21,224,484,588	\$ (820,996,991)	103.9%	\$ 5,771,763,164	(14.2%)
March 31, 1998	24,478,860,383	23,484,403,450	(994,456,933)	104.2%	5,989,748,156	(16.6%)
June 30, 1999	27,457,451,678	25,546,083,289	(1,911,368,389)	107.5%	6,254,198,406	(30.6%)
June 30, 2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.2%	6,571,641,181	(42.6%)
June 30, 2001	35,351,379,511	32,745,357,185	(2,606,022,326)	108.0%	6,948,381,383	(37.5%)
June 30, 2002	35,148,246,433	35,146,591,842	(1,654,591)	100.0%	7,348,993,141	0.0%



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 Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent 2002 actuarial valuations include the following:

	JRS	CPFPF
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	30 years	1 year
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	—
Cost-of-living adjustments	2.40%	—
Valuation date	June 30, 2002	June 30, 2002
	PFRS	POPF
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	Market value
Amortization method	Level percent, closed	Level dollar, closed
Remaining amortization period	30 years	1 year
Actuarial assumptions:		
Interest rate	8.75%	5.00%
Salary range	5.95%	—
Cost-of-living adjustments	2.40%	—
Valuation date	June 30, 2002	June 30, 2002



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 Schedule of Funding Progress - Additional Actuarial Information

	PERS	SPRS
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 percent, closed	Level dollar, closed
Payroll growth rate for amortization	5.00%	—
Remaining amortization period	39 years for UAAL balance 9 years for asset method change	30 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%
Valuation date	June 30, 2002	June 30, 2002
	TPAF	
Actuarial cost method	Projected unit credit	
Asset valuation method	5 year average of market value	
Amortization method	Level percent, closed	
Payroll growth rate for amortization	5.00%	
Remaining amortization period	1 year	
Actuarial assumptions:		
Interest rate	8.75%	
Salary range	5.95%	
Cost-of-living adjustments	2.40%	
Valuation date	June 30, 2002	



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YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
JUDICIAL RETIREMENT SYSTEM			
1997	\$ 18,406,865	\$ 110,483,753	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%
2002	15,575,602	—	0.0%
2003	16,913,237	8,467,287	50.1%
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND			
1997	\$ 10,580,991	\$ 43,995,746	415.8%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	550,864	506,541	92.0%
2003	3,550,445	2,713,914	76.4%
POLICE AND FIREMEN'S RETIREMENT SYSTEM			
State			
1997	\$ 111,775,028	\$ 715,344,385	640.0%
1998	84,167,834	73,587,848	87.4%
1999	93,920,617	23,730,087	25.3%
2000	98,974,449	60,521,749	61.1%
2001	95,883,272	—	0.0%
2002	103,580,989	—	0.0%
2003	104,998,547	—	0.0%
Local			
1997	250,220,580	234,963,865	93.9%
1998	238,002,765	223,491,008	93.9%
1999	273,210,113	256,551,862	93.9%
2000	275,790,739	214,164,848	77.7%
2001	249,746,232	75,670,018	30.3%
2002	248,754,078	185,415	0.1%
2003	259,969,532	364,850	0.1%
PRISON OFFICERS' PENSION FUND			
1997	\$ 2,949,604	\$ 21,688,219	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	N/A
2003	—	—	N/A



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information, Continued
 Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
PUBLIC EMPLOYEES' RETIREMENT SYSTEM			
State			
1997	\$ 134,878,582	\$ 241,106,642	178.8%
1998	78,833,287	—	0.0%
1999	86,945,810	—	0.0%
2000	103,033,425	—	0.0%
2001	85,078,620	—	0.0%
2002	88,911,187	—	0.0%
2003	44,636,619	—	0.0%
Local			
1997	142,672,255	67,476,771	47.3%
1998	84,639,988	19,034,673	22.5%
1999	111,886,040	19,599,153	17.5%
2000	112,800,127	20,541,177	18.2%
2001	88,717,727	21,670,774	24.4%
2002	77,254,063	16,174,534	20.9%
2003	—	16,987,033	N/A
STATE POLICE RETIREMENT SYSTEM			
1997	\$ 44,384,679	\$ 120,308,862	271.1%
1998	33,317,314	—	0.0%
1999	33,116,255	—	0.0%
2000	33,598,843	—	0.0%
2001	35,341,259	—	0.0%
2002	24,990,652	—	0.0%
2003	29,449,164	—	0.0%
TEACHERS' PENSION AND ANNUITY FUND			
1997	\$ 372,060,546	\$ 1,601,688,633	430.5%
1998	297,219,462	—	0.0%
1999	314,671,482	258,816,649	82.2%
2000	368,904,564	—	0.0%
2001	—	—	N/A
2002	—	—	N/A
2003	194,435,594	—	0.0%

Notes to schedule:

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.

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

The local employer contribution to the PERS from 1998 to 2003 represents required contributions under the early retirement incentive programs.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Schedule of Loss Development Information
June 30, 2003

HEALTH BENEFITS PROGRAM FUND - LOCAL	FISCAL YEAR ENDED JUNE 30, 2003
Premiums and investment revenue Earned	\$ 1,422,255,503
Estimated losses and expenses	1,304,442,508
PRESCRIPTION DRUG PROGRAM FUND - LOCAL	FISCAL YEAR ENDED JUNE 30, 2003
Premiums and investment revenue Earned	\$ 65,664,096
Estimated losses and expenses	62,613,162



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Administrative Expenses
Year ended June 30, 2003

	PERS	TPAF	PFRS	CPFFP	POPF	SPRS	JRS	NJSEDCP	TOTAL
Personnel Services									
Salaries & Wages	\$ 8,973,474	4,444,297	1,526,948	22,533	4,486	104,060	21,090	353,067	\$ 15,449,955
Employee Benefits	2,167,094	1,073,298	368,758	5,442	1,083	25,134	4,614	83,674	3,729,097
Total Personnel Services	11,140,568	5,517,595	1,895,706	27,975	5,569	129,194	25,704	436,741	19,179,052
Professional Services									
Actuarial Services	701,789	141,864	286,515	4,089	943	19,499	3,460	—	1,158,159
Data Processing	1,377,561	682,264	234,409	1,728	344	15,975	2,738	48,830	2,363,849
Information Systems	2,406,510	1,191,870	409,496	3,019	601	27,907	4,782	123,795	4,167,980
Other Professional**	241,506	119,812	42,373	302	60	3,183	479	—	407,715
Medical Review*	248,858	34,849	195,144	—	—	34,122	—	—	512,973
Internal Audit & Legal	573,492	284,032	97,586	718	143	6,650	1,140	—	963,761
Total Professional Services	5,549,716	2,454,691	1,265,523	9,856	2,091	107,336	12,599	172,625	9,574,437
Communication									
Travel	17,188	22,079	7,925	18	4	534	29	4,793	52,570
Telephone	373,518	184,991	63,558	469	93	4,331	742	2,800	630,502
Postage	588,168	291,302	100,084	738	147	6,821	1,169	42,000	1,030,429
Motor Pool	12,608	6,244	2,145	16	3	146	25	—	21,187
Printing & Office	358,424	175,427	60,221	436	87	4,039	2,245	3,892	604,771
Total Communication	1,349,906	680,043	233,933	1,677	334	15,871	4,210	53,485	2,339,459
Miscellaneous									
Office Space	1,284,056	793,257	272,543	2,009	400	18,574	183	—	2,371,022
Maintenance	34,090	16,884	5,801	43	9	395	68	—	57,290
Equipment	90,169	44,658	15,343	113	23	1,046	179	—	151,531
Other Services & Charges	132,631	379,577	338,670	8,307	2,279	10,891	264	—	872,619
Total Miscellaneous	1,540,946	1,234,376	632,357	10,472	2,711	30,906	694	—	3,452,462
Total Administrative Expense	\$19,581,136	9,886,705	4,027,519	49,980	10,705	283,307	43,207	662,851	\$34,545,410

* Consulting

**Portion of Consulting



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Schedule of Investment Expenses
 Year ended June 30, 2003

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	NJSEDCP	TOTAL
Investment Expense	\$3,854,136	1,924,908	667,458	11,385	2,193	46,010	7,772	161,087	\$6,674,949
Global Custody, Fees	805,886	1,134,997	553,242	—	—	69,143	14,599	—	2,577,867
Total Investment Expenses	\$4,660,022	3,059,905	1,220,700	11,385	2,193	115,153	22,371	161,087	\$9,252,816



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Schedule of Expenses for Consultants
 Year ended June 30, 2003

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	TOTAL
Actuarial								
Buck Consultants	\$701,789	—	286,515	4,089	943	19,499	3,460	\$1,016,295
Milliman USA	—	141,864	—	—	—	—	—	141,864
Exams/Hearings	248,858	34,849	195,144	—	—	34,122	—	512,973
Unemployment Contract								
TALX	31,334	15,178	4,579	—	—	309	51	51,451
Total Expenses for Consultants	\$981,981	191,891	486,238	4,089	943	53,930	3,511	\$1,722,583

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Assets:			
Cash and cash equivalents	\$ 3,641,789	—	\$ 3,641,789
Investments, at fair value:			
Cash Management Fund	2,651,292,345	37,757	2,651,330,102
Bonds	612,102,093	13,495	612,115,588
Common Pension Fund A	29,669,116,843	603,070	29,669,719,913
Common Pension Fund B	17,051,529,343	378,642	17,051,907,985
Common Pension Fund D	10,938,538,719	217,069	10,938,755,788
Common and preferred stocks	769,808,650	—	769,808,650
Mortgages	2,082,283,030	21,370	2,082,304,400
Total investments	63,774,671,023	1,271,403	63,775,942,426
Receivables:			
Contributions:			
Members	168,239,233	—	168,239,233
Employers	412,870,458	—	412,870,458
Accrued interest and dividends	353,235,908	—	353,235,908
Members' loans	1,186,105,045	—	1,186,105,045
Other	38,587,934	—	38,587,934
Total receivables	2,159,038,578	—	2,159,038,578
Total assets	\$ 65,937,351,390	1,271,403	\$ 65,938,622,793
Liabilities:			
Accounts payable and accrued expenses	\$ 35,859,580	—	\$ 35,859,580
Retirement benefits payable	350,270,987	—	350,270,987
NCGI premiums payable	10,142,884	—	10,142,884
Cash overdraft	1,290,290	—	1,290,290
Total liabilities	397,563,741	—	397,563,741
Net assets held in trust for pension and post-retirement medical benefits	\$ 65,539,787,649	1,271,403	\$ 65,541,059,052



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2003

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Additions:			
Contributions:			
Members	\$ 1,062,340,136	—	\$ 1,062,340,136
Employers	(62,326,388)	368,240,109	305,913,721
Other	12,374,992	—	12,374,992
Total contributions	1,012,388,740	368,240,109	1,380,628,849
Investment income:			
Net appreciation in fair value of investments	15,606,700	1,156,209	16,762,909
Interest	1,501,101,246	—	1,501,101,246
Dividends	505,310,345	—	505,310,345
	2,022,018,291	1,156,209	2,023,174,500
Less: investment expense	9,252,816	—	9,252,816
Net investment income	2,012,765,475	1,156,209	2,013,921,684
Total additions	3,025,154,215	369,396,318	3,394,550,533
Deductions:			
Benefits	4,361,923,890	478,573,124	4,840,497,014
Refunds of contributions	100,119,056	—	100,119,056
Administrative expenses	34,545,410	—	34,545,410
Total deductions	4,496,588,356	478,573,124	4,975,161,480
Net decrease	(1,471,434,141)	(109,176,806)	(1,580,610,947)
Net assets held in trust for pension and post-retirement medical benefits:			
Beginning of year	67,011,221,790	110,448,209	67,121,669,999
End of year	\$ 65,539,787,649	1,271,403	\$ 65,541,059,052



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

June 30, 2003

	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND	DEFERRED COMPENSATION FUND	JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS' PENSION FUND
Assets:							
Cash	\$ —	5,519	96,668	340,818	59,056	—	52,363
Investments, at fair value:							
Cash Management Fund	2,788,753	9,924	12,544,944	250,919,149	22,479,982	678,099,545	5,902,985
Bonds	—	—	3,905,498	240,208,585	—	12,669,144	7,855,300
Common Pension Fund A	—	—	—	—	142,307,752	6,650,424,087	—
Common Pension Fund B	—	—	—	—	62,087,154	3,118,811,410	—
Common Pension Fund D	—	—	—	—	62,440,207	2,358,943,811	—
Common and Preferred Stocks	—	—	—	648,273,725	—	—	—
Mortgages	—	—	1,998,006	—	10,092,359	1,260,874,507	3,411,743
Total investments	2,788,753	9,924	18,448,448	1,139,401,459	299,407,454	14,079,822,504	17,170,028
Receivables:							
Contributions:							
Members	—	—	—	110,014	67,924	47,455,802	—
Employers	—	22,000	—	—	—	256,931,014	—
Accrued interest and dividends	—	8	88,099	3,600,035	1,419,864	76,884,636	—
Members' loans	—	—	—	—	549,415	468,255,038	—
Other	130,569	2,569	2,921,648	—	—	30,771,611	282,686
Total receivables	130,569	24,577	3,009,747	3,710,049	2,037,203	880,298,101	282,686
Total assets	\$ 2,919,322	40,020	21,554,863	1,143,452,326	301,503,713	14,960,120,605	17,505,077
Liabilities:							
Accounts payable and accrued expenses	\$ —	4,490	26,396	358,728	20,428	2,142,026	1,323
Retirement benefits payable	—	35,530	1,497,857	6,773,476	2,085,227	74,250,504	225,801
NCGI premiums payable	—	—	—	—	—	3,044,899	—
Cash overdraft	—	—	—	—	—	727,585	—
Total liabilities	—	40,020	1,524,253	7,132,204	2,105,655	80,165,014	227,124
Net assets held in trust for pension and post-retirement medical benefits	\$ 2,919,322	—	20,030,610	1,136,320,122	299,398,058	14,879,955,591	17,277,953



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

June 30, 2003

	PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PERS POST- RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS' PENSION AND ANNUITY FUND	TPAF POST- RETIREMENT MEDICAL FUND	TOTAL
Assets:							
Cash	—	—	—	—	3,087,365	—	\$ 3,641,789
Investments, at fair value:							
Cash Management Fund	546,045,650	25,564	118,411,814	7,191,603	1,006,897,996	12,193	2,651,330,102
Bonds	267,594,519	12,528	—	—	79,869,047	967	612,115,588
Common Pension Fund A	9,647,348,735	451,657	724,828,258	—	12,504,208,011	151,413	29,669,719,913
Common Pension Fund B	6,189,402,157	289,768	341,691,041	—	7,339,537,581	88,874	17,051,907,985
Common Pension Fund D	3,388,626,257	158,644	303,650,811	—	4,824,877,633	58,425	10,938,755,788
Common and Preferred Stocks	—	—	—	121,534,925	—	—	769,808,650
Mortgages	342,951,140	16,056	24,127,966	—	438,827,309	5,314	2,082,304,400
Total investments	20,381,968,458	954,217	1,512,709,890	128,726,528	26,194,217,577	317,186	63,775,942,426
Receivables:							
Contributions:							
Members	54,743,195	—	924,340	483,956	64,454,002	—	168,239,233
Employers	100,372,530	—	—	—	55,544,914	—	412,870,458
Accrued interest and dividends	119,243,689	—	7,380,519	160,382	144,458,676	—	353,235,908
Members' loans	444,068,570	—	31,689,432	—	241,542,590	—	1,186,105,045
Other	1,977,448	—	—	2,487,160	14,243	—	38,587,934
Total receivables	720,405,432	—	39,994,291	3,131,498	506,014,425	—	2,159,038,578
Total assets	21,102,373,890	954,217	1,552,704,181	131,858,026	26,703,319,367	317,186	\$ 65,938,622,793
Liabilities:							
Accounts payable and accrued expenses	19,679,321	—	142,010	2,024,518	11,460,340	—	\$ 35,859,580
Retirement benefits payable	116,673,568	—	6,804,058	887,136	141,037,830	—	350,270,987
NCGI premiums payable	5,120,098	—	—	—	1,977,887	—	10,142,884
Cash overdraft	364,006	—	19,248	179,451	—	—	1,290,290
Total liabilities	141,836,993	—	6,965,316	3,091,105	154,476,057	—	397,563,741
Net assets held in trust for pension and post-retirement medical benefits	20,960,536,897	954,217	1,545,738,865	128,766,921	26,548,843,310	317,186	\$ 65,541,059,052



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds
Year Ended June 30, 2003

	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND	DEFERRED COMPENSATION FUND	JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS' PENSION FUND
Additions:							
Contributions:							
Members	\$ —	—	—	127,006,020	2,578,620	252,281,888	—
Employers	1,200,000	393,692	2,776,011	—	9,065,435	(79,875,166)	—
Other	—	30,290	11,045,283	—	—	—	1,293,665
Total contributions	1,200,000	423,982	13,821,294	127,006,020	11,644,055	172,406,722	1,293,665
Investment income:							
Net appreciation (depreciation) in fair value of investments	(10,572)	—	(182,817)	(1,078,920)	(951,113)	(25,962,866)	134,270
Interest	79,898	955	573,294	14,569,343	6,347,676	347,301,479	798,180
Dividends	—	—	—	9,679,980	2,326,256	110,122,507	—
Less: investment expense	69,326	955	390,477	23,170,403	7,722,819	431,461,120	932,450
	—	—	11,385	161,087	22,371	1,220,700	2,193
Net investment income	69,326	955	379,092	23,009,316	7,700,448	430,240,420	930,257
Total additions	1,269,326	424,937	14,200,386	150,015,336	19,344,503	602,647,142	2,223,922
Deductions:							
Benefits	1,661,335	420,483	18,664,638	61,619,829	25,551,000	916,882,474	2,843,716
Refunds of contributions	—	4,454	—	—	128,278	6,825,918	—
Administrative expenses	—	—	49,980	662,851	43,207	4,027,519	10,705
Total deductions	1,661,335	424,937	18,714,618	62,282,680	25,722,485	927,735,911	2,854,421
Net increase (decrease)	(392,009)	—	(4,514,232)	87,732,656	(6,377,982)	(325,088,769)	(630,499)
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	3,311,331	—	24,544,842	1,048,587,466	305,776,040	15,205,044,360	17,908,452
End of year	\$ 2,919,322	—	20,030,610	1,136,320,122	299,398,058	14,879,955,591	17,277,953



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

Year Ended June 30, 2003

	PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PERS POST- RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS' PENSION AND ANNUITY FUND	TPAF POST- RETIREMENT MEDICAL FUND	TOTAL
Additions:							
Contributions:							
Members	354,900,256	—	14,198,794	7,803,771	303,570,787	—	\$ 1,062,340,136
Employers	899,789	69,917,899	193,099	—	3,020,752	298,322,210	305,913,721
Other	4,614	—	69	—	1,071	—	12,374,992
Total contributions	355,804,659	69,917,899	14,391,962	7,803,771	306,592,610	298,322,210	1,380,628,849
Investment income:							
Net appreciation (depreciation)							
In fair value of investments	37,060,277	914,573	3,858,584	(4,376,793)	7,116,650	241,636	16,762,909
Interest	523,444,265	—	32,973,670	63,473	574,949,013	—	1,501,101,246
Dividends	161,204,573	—	11,713,239	2,320,287	207,943,503	—	505,310,345
	721,709,115	914,573	48,545,493	(1,993,033)	790,009,166	241,636	2,023,174,500
Less: investment expense	4,660,022	—	115,153	—	3,059,905	—	9,252,816
Net investment income	717,049,093	914,573	48,430,340	(1,993,033)	786,949,261	241,636	2,013,921,684
Total additions	1,072,853,752	70,832,472	62,822,302	5,810,738	1,093,541,871	298,563,846	3,394,550,533
Deductions:							
Benefits	1,511,214,623	136,392,686	82,072,319	17,858,219	1,723,135,254	342,180,438	4,840,497,014
Refunds of contributions	67,253,681	—	29,060	—	25,877,665	—	100,119,056
Administrative expenses	19,581,136	—	283,307	—	9,886,705	—	34,545,410
Total deductions	1,598,049,440	136,392,686	82,384,686	17,858,219	1,758,899,624	342,180,438	4,975,161,480
Net increase (decrease)	(525,195,688)	(65,560,214)	(19,562,384)	(12,047,481)	(665,357,753)	(43,616,592)	(1,580,610,947)
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	21,485,732,585	66,514,431	1,565,301,249	140,814,402	27,214,201,063	43,933,778	67,121,669,999
End of year	20,960,536,897	954,217	1,545,738,865	128,766,921	26,548,843,310	317,186	\$ 65,541,059,052



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Balance Sheet
Fiduciary Funds - Agency Funds
June 30, 2003

	ALTERNATE BENEFIT PROGRAM FUND	PENSION ADJUSTMENT FUND	TOTAL
Assets:			
Cash and cash equivalents	\$ 344,780	132,124	\$ 476,904
Investments, at fair value:			
Cash Management Fund	14,931,117	4,102,651	19,033,768
Total investments	14,931,117	4,102,651	19,033,768
Receivables:			
State related employer contributions	—	2,779,531	2,779,531
Other	28,170	—	28,170
Due from other funds	5,091,548	23,463	5,115,011
Total receivables	5,119,718	2,802,994	7,922,712
Total assets	\$ 20,395,615	7,037,769	\$ 27,433,384
Liabilities:			
Accounts payable and accrued expenses	\$ 18,598,669	—	\$ 18,598,669
Assets held for state-related employers	—	3,807,568	3,807,568
Pension adjustment payroll payable	—	991,440	991,440
Due to State of New Jersey	1,796,946	267,427	2,064,373
Due to other funds	—	1,971,334	1,971,334
Total liabilities	\$ 20,395,615	7,037,769	\$ 27,433,384



STATE OF NEW JERSEY
 DIVISION OF PENSIONS AND BENEFITS
 Schedule of Changes in Fiduciary Net Assets
 Agency Fund - Alternate Benefit Program Fund
 Year ended June 30, 2003

Additions:

Contributions:	
Members	\$ 673,034
Employers	116,889,694
<hr/>	
Total contributions	117,562,728
<hr/>	
Investment income:	
Net appreciation (depreciation) in fair value of investments	(10,150)
Interest	272,151
<hr/>	
Total investment income	262,001
<hr/>	
Total additions	117,824,729
<hr/> <hr/>	

Deductions:

Benefits	116,036,015
Refunds of contributions and due General Fund	1,788,714
<hr/>	
Total deductions	\$ 117,824,729
<hr/> <hr/>	



STATE OF NEW JERSEY
 DIVISION OF PENSIONS AND BENEFITS
 Schedule of Changes in Fiduciary Net Assets
 Agency Fund - Pension Adjustment Fund
 Year ended June 30, 2003

Additions:

Contributions:	
Employers	\$ 12,455,923
<hr/>	
Total contributions	12,455,923
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Investment income:	
Net appreciation (depreciation) in fair value of investments	(7,462)
Interest	154,679
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Total investment income	147,217
<hr/>	
Total additions	12,603,140
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Deductions:

Benefits	12,364,021
Refunds of contributions and due General Fund	239,119
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Total deductions	\$ 12,603,140
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