

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

June 30, 2004

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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, 2004, 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, 2004, 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, 2004, 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 basic 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. 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 basic financial statements. 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 24, 2004

KPMG LLP



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis

June 30, 2004

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, 2004. 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 increased by \$31.8 million as a result of operations decreasing the deficit from \$(95.3) million to \$(63.5) million. For Prescription Drug Program-State, net assets increased by \$2.9 million from \$24.7 million to \$27.6 million. For Dental Expense Program, net assets decreased by \$4.2 million from \$16.3 million to \$12.1 million.
- Revenues recognized during the year were as follows: \$967.2 million for the Health Benefits Program-State; \$222.8 million for the Prescription Drug Program-State; \$61.8 million for the Dental Expense Program.
- Expenses incurred during the year were as follows: \$935.4 million for the Health Benefits Program-State; \$219.8 million for the Prescription Drug Program-State; \$66.1 million for the Dental Expense Program.

Business-Type Activities:

- For Health Benefits Program-Local, net assets increased by \$70.3 million as a result of operations from \$58.1 million to \$128.4 million. For Prescription Drug Program-Local, net assets increased by \$0.6 million from \$8.3 million to \$8.9 million.
- For the Health Benefits Program-Local and the Prescription Drug Program-Local, revenues recognized during the year were \$1.7 billion and \$84.1 million, respectively.
- For Health Benefits Program-Local and the Prescription Drug Program-Local, expenses incurred during the year were \$1.6 billion and \$83.4 million, respectively.

Fund Financial Statements

Fiduciary Funds:

Pension Trust Funds:

- Fiduciary net assets increased by \$6.1 billion as a result of this year's operations from \$65.5 billion to \$71.6 billion.
- Additions for the year were \$11.5 billion, which are comprised of member and employer pension contributions of \$2.7 billion and investment income of \$ 8.8 billion.
- Deductions for the year were \$5.4 billion, which are comprised of benefit and refund payments of \$5.4 billion and administrative expenses of \$32.2 million.



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DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis, Continued

June 30, 2004

- The Funds utilized net assets (excess assets above the required funding level) to meet this year's normal pension contribution requirements.

Agency Funds:

- The Funds' total additions were \$133.2 million mostly consisting of member and employer contributions of \$133.1 million and investment income of \$0.1 million.
- The Funds' total deductions were \$133.2 million consisting of pension and insurance benefit charges of \$132.2 million and other expenses of \$1.0 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.

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.



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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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Management's Discussion and Analysis, Continued
June 30, 2004

FINANCIAL ANALYSIS

Government-wide:

STATEMENT OF NET ASSETS (DEFICIT)

Governmental Activities:

	2004	2003	Increase (Decrease)
Assets	\$ 152,666,147	\$ 92,631,301	\$ 60,034,846
Liabilities	176,501,958	147,010,056	29,491,902
Net Assets (Deficit)	\$ (23,835,811)	\$ (54,378,755)	\$ 30,542,944

Business-Type Activities:

	2004	2003	Increase (Decrease)
Assets	\$ 399,618,655	\$ 277,525,205	\$ 122,093,450
Liabilities	262,269,465	211,092,531	51,176,934
Net Assets (Deficit)	\$ 137,349,190	\$ 66,432,674	\$ 70,916,516

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 Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) to provide funding for post-retirement medical benefits. For the Governmental Activities, between fiscal years 2003 and 2004, total assets increased by \$60.0 million or 64.8%. For the Business-Type Activities, total assets increased by \$122.1 million or 44.0%. The increase in total assets is mainly due to an increase in fair value balances invested in the Cash Management Fund (CMF).

Liabilities mainly consist of outstanding medical and long-term disability claim payments, including incurred but not reported (IBNR) claims. For the Governmental Activities, total liabilities increased by \$29.5 million or 20.1%. For the Business-Type Activities, total liabilities increased by \$51.2 million or 24.2%. The increase in total liabilities is mainly due to an increase in claims payable including IBNR.

For the Governmental Activities, net assets increased by \$30.5 million or 56.2%. For the Business-Type Activities, net assets increased by \$70.9 million or 106.8%. The increase in net assets is due to an increase in fair value of investments and revenues exceeding expenses.



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STATEMENT OF ACTIVITIES

REVENUES - ADDITIONS TO NET ASSETS (DEFICIT)

Governmental Activities:

	2004	2003	Increase (Decrease)
Member Contributions	\$ 108,605,249	\$ 98,538,421	\$ 10,066,828
Employer Contributions	1,142,379,402	964,089,279	178,290,123
CMF Investment & Other	856,232	1,157,744	(301,512)
Totals	\$ 1,251,840,883	\$ 1,063,785,444	\$ 188,055,439

Business-Type Activities:

	2004	2003	Increase (Decrease)
Member Contributions	\$ 85,621,581	\$ 75,340,822	\$ 10,280,759
Employer Contributions	1,683,134,186	1,411,263,887	271,870,299
CMF Investment & Other	2,841,106	1,378,803	1,462,303
Totals	\$ 1,771,596,873	\$ 1,487,983,512	\$ 283,613,361

Revenues primarily consist of member and employer contributions and earnings from CMF Investment activities. For the Governmental Activities, revenues increased by \$188.1 million or 17.7%. For the Business-Type Activities, total revenues increased by \$283.6 million or 19.1%. 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 10.2% for the Governmental Activities and by 13.7% for the Business-Type Activities for the same reason. The reduction in investment and other revenues in the Governmental Activities is primarily due to a low CMF interest rate.

EXPENSES - DEDUCTIONS FROM NET ASSETS (DEFICIT)

Governmental Activities:

	2004	2003	Increase (Decrease)
Benefits	\$ 1,218,641,656	\$ 1,046,043,657	\$ 172,597,999
Administrative Expenses	2,656,283	2,919,206	(262,923)
Totals	\$ 1,221,297,939	\$ 1,048,962,863	\$ 172,335,076

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 \$172.3 million or 16.4% for the Governmental Activities. For the insured plans, expenses



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Management's Discussion and Analysis, Continued

June 30, 2004

increased due to the higher premium rates for calendar year 2004. The average premium rate increase for all plans is 7.6% for active members and 14.7% for retirees in calendar year 2004. 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:

	2004	2003	Increase (Decrease)
Benefits	\$ 1,696,844,732	\$ 1,362,676,860	\$ 334,167,872
Administrative Expenses	3,835,625	4,378,810	(543,185)
Totals	\$ 1,700,680,357	\$ 1,367,055,670	\$ 333,624,687

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 \$333.6 million or 24.4% for the Business-Type Activities. For the insured plans, expenses increased due to higher premium rates for calendar year 2004. The average premium rate increase for all plans is 10.1% for active members and 13.5% for retirees in calendar year 2004. 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:

	2004	2003	Increase (Decrease)
Assets	\$ 72,086,082,766	\$ 65,938,622,793	\$ 6,147,459,973
Liabilities	437,236,127	397,563,741	39,672,386
Net Assets (Deficit)	\$ 71,648,846,639	\$ 65,541,059,052	\$ 6,107,787,587

Assets mainly consist of cash, investments, and contributions due from members and participating employers. Between fiscal years 2003 and 2004, total assets increased by \$6.1 billion or 9.3%. The total assets increased primarily due to an increase in fair value of investments. Also, it is related to an increase in employer contributions receivables based on Chapter 23, P.L. 2002 (early retirement incentive benefits to State employees) for TPAF and PERS and Chapter 108, P.L. 2003 (pension obligation payments by local employers through a five-year phase-in) for PERS and PFRS. Employer contribution receivables for TPAF, PERS, and PFRS decreased partly due to Chapter 42, P.L. 2002 (local employers' issuing refunding bonds to retire an unfunded accrued liability).

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, outstanding insurance premium payments, and other payables. Total liabilities increased by \$39.7 million or 10% over last year. This is mainly due to an increase in benefits payable to retirees and beneficiaries, partly related to the State Early Retirement Incentive (Chapter 23, P.L. 2002) for TPAF and PERS.

Net assets increased by \$6.1 billion or 9.3%.



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June 30, 2004

Agency Funds:

	2004	2003	Increase (Decrease)
Assets	\$ 27,295,305	\$ 27,433,384	\$ (138,079)
Liabilities	27,295,305	27,433,384	(138,079)
Net Assets (Deficit)	\$ 0	\$ 0	\$ 0

The Funds' assets mainly consist of cash, investments and contributions due from the State and local employers. Between fiscal years 2003 and 2004, total assets decreased by 0.5%. This is mainly due to a decrease in fair value balances invested in the Cash Management Fund.

Liabilities mainly consist of benefits payable to eligible recipients in the Pension Adjustment Fund (PAF); 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 (ABP). Between fiscal year 2003 and 2004, total liabilities decreased by 0.5%. The decrease in the liabilities is mainly related to a decrease in pension adjustment payroll payable to retirees and beneficiaries in the PAF.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

Pension Trust Funds:

	2004	2003	Increase (Decrease)
Member Contributions	\$ 1,196,974,064	\$ 1,062,340,136	\$ 134,633,928
Employer Contributions & Other	1,515,936,521	318,288,644	1,197,647,877
Investment & Other	8,805,203,225	2,013,921,753	6,791,281,472
Totals	\$ 11,518,113,810	\$ 3,394,550,533	\$ 8,123,563,277

Additions primarily consist of member and employer contributions and earnings from investment activities. There was an increase by \$134.6 million or 12.7% in total member contributions. In all pension trust funds other than Supplemental Annuity Collective Trust (SACT) and Judicial Retirement System (JRS), member contributions increased between 2003 and 2004 partly due to normal salary increases or increased membership. Also, in TPAF, the increase is partly due to elimination of a reduction in the employee contribution rate (i.e., returning to the normal rate of 5% from 3%), which was effective January 1, 2004. The increases ranged from 2% in Deferred Compensation Fund (DCP) to 33.6% in TPAF. SACT decreased by 7.5%, and JRS decreased by 30.4%.

Employer contributions (excluding pension adjustment fund) increased by \$1.2 billion or 391.8%. The increase was mainly from PERS by \$703.6 million or 993.5%, from PFRS by \$344 million or 430.7%, and from TPAF by \$155.1 million or 51.5%. There are contributions from local employers for appropriation due April 1, 2005 for PERS and PFRS based on Chapter 108, P.L. 2003, and contributions from State appropriation for TPAF and PERS based on Chapter 23, P.L. 2002. On the other hand, last year in PFRS there was a retroactive reduction down to 20% of the revenues of fiscal year 2002 based on Chapter 108, P.L. 2003.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis, Continued

June 30, 2004

The State made a contribution of \$424.8 million for TPAF and \$168.7 million for PERS fiscal year 2004 post-retirement medical (PRM).

The State made a contribution of \$3.4 million to JRS and \$2.0 million to Consolidated Police and Firemen's Pension Fund (CPFPPF) to satisfy the actuarially accrued liabilities in fiscal year 2004.

For fiscal year 2004, the 68% of TPAF and PERS and the 50% 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 and PERS from 1997 to 2004. 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.

Investment & other revenues increased by \$6.8 billion or 337.2% due to an increase in earnings and net appreciation in fair value of investments.

The total investment gain for all pension funds was estimated to be 14.2% compared to 3.3% in the prior year.

Agency Funds:

	2004	2003	Increase (Decrease)
Member Contributions	\$ 699,121	\$ 673,034	\$ 26,087
Employer Contributions	132,369,860	129,345,617	3,024,243
Investment & Other	174,436	409,218	(234,782)
Totals	\$ 133,243,417	\$ 130,427,869	\$ 2,815,548

For the ABP, additions primarily consist of member and employer contributions and earnings from investment activities. During the year, member contribution increased by 3.9% due to an increase in number of active members. Employer contributions increased by \$4.1 million or 3.5% due to higher base salaries. Investment earning decreased by 61.3% due to a low CMF interest rate.

For the PAF, additions consist of employer contributions and earnings from investment activities. Contributions recognized by the PAF decreased by \$1 million or 8.5% over last year due to a decrease in number of retirees and beneficiaries receiving pension adjustment benefit. Investment earnings dropped by 50.4% due to a low CMF interest rate.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

Pension Trust Funds:

	2004	2003	Increase (Decrease)
Benefits	\$ 5,276,329,933	\$ 4,840,497,014	\$ 435,832,919
Refunds & Adjustments	101,777,214	100,119,056	1,658,158
Administrative Expenses	32,219,076	34,545,410	(2,326,334)
Totals	\$ 5,410,326,223	\$ 4,975,161,480	\$ 435,164,743



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DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis, Continued

June 30, 2004

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 \$435.8 million or 9%. It is partly due to an increase in number of retirees based on the State Early Retirement Incentive (Chapter 23, P.L. 2002) for TPAF and PERS. The number of refunds processed increased by \$1.7 million or 1.7% compared to last year. Administrative expenses decreased by \$2.3 million or 6.7% mainly due to a decrease in salaries and wages cost over the last year.

Agency Funds:

	2004	2003	Increase (Decrease)
Benefits	\$ 132,187,587	\$ 128,400,036	\$ 3,787,551
Refunds & Amounts Due the General Fund	1,055,830	2,027,833	(972,003)
Totals	\$ 133,243,417	\$ 130,427,869	\$ 2,815,548

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 in the ABP. Also, the increase is related to higher life insurance benefit payments in the ABP. Benefit payments increased by \$4.8 million or 4.1% in the ABP. 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 Funds. There was a decrease in this expense by 47.9% between 2004 and 2003.

OVERALL FINANCIAL CONDITION OF THE FUNDS

For the pension benefit funds, the combined funded ratios of 93.7% for fiscal year 2004 and 101.4% for 2003 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 intends 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 intends 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, 2004

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and cash equivalents	\$ 52,515	951,435	\$ 1,003,950
Investments, at fair value:			
Cash Management Fund	119,714,179	313,669,981	433,384,160
Total investments	119,714,179	313,669,981	433,384,160
Receivables:			
Other	992,248	84,034,279	85,026,527
Due from other funds	31,907,205	962,960	32,870,165
Total receivables	32,899,453	84,997,239	117,896,692
Total assets	\$ 152,666,147	399,618,655	\$ 552,284,802
Liabilities:			
Accounts payable and accrued expenses	\$ 44,761,902	45,021,143	\$ 89,783,045
Incurred but not reported claims	126,227,000	211,550,000	337,777,000
Deferred revenue	5,160,153	4,836,606	9,996,759
Due to other funds	352,903	861,716	1,214,619
Total liabilities	176,501,958	262,269,465	438,771,423
Net assets (deficit) - unrestricted	(23,835,811)	137,349,190	113,513,379
Total liabilities and net assets (deficit) - unrestricted	\$ 152,666,147	399,618,655	\$ 552,284,802

See accompanying notes to financial statements.



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DIVISION OF PENSIONS AND BENEFITS

Statement of Activities
Year Ended June 30, 2004

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	\$ 935,377,863	966,797,040	31,419,177	—	\$ 31,419,177
Dental Expense Program	66,061,435	61,643,304	(4,418,131)	—	(4,418,131)
Prescription Drug Program - State	219,858,641	222,544,307	2,685,666	—	2,685,666
Total governmental activities	1,221,297,939	1,250,984,651	29,686,712	—	29,686,712
Business-type activities:					
Health Benefits Program - Local	1,617,245,564	1,684,721,256	—	67,475,692	67,475,692
Prescription Drug Program - Local	83,434,793	84,034,511	—	599,718	599,718
Total business-type activities	1,700,680,357	1,768,755,767	—	68,075,410	68,075,410
Total primary government	\$ 2,921,978,296	3,019,740,418	29,686,712	68,075,410	\$ 97,762,122
General Revenues:					
Investment Earnings			\$ 856,232	2,841,106	\$ 3,697,338
Total general revenues			856,232	2,841,106	3,697,338
Change in Net Assets			30,542,944	70,916,516	101,459,460
Net assets (deficit) - Beginning of year			(54,378,755)	66,432,674	12,053,919
Net assets (deficit) - End of year			\$ (23,835,811)	137,349,190	\$ 113,513,379

See accompanying notes to financial statements.



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

Balance Sheet
Governmental Funds
June 30, 2004

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Assets:				
Cash and cash equivalents	\$ 52,515	—	—	\$ 52,515
Investments, at fair value:				
Cash Management Fund	79,295,356	18,689,030	21,729,793	119,714,179
Total investments	79,295,356	18,689,030	21,729,793	119,714,179
Receivables:				
Other	503,201	433,236	55,811	992,248
Due from other funds	18,521,181	1,546,824	11,839,200	31,907,205
Total receivables	19,024,382	1,980,060	11,895,011	32,899,453
Total assets	\$ 98,372,253	20,669,090	33,624,804	\$ 152,666,147
Liabilities:				
Accounts payable and accrued expenses	\$ 36,752,545	2,069,357	5,940,000	\$ 44,761,902
Deferred revenue	4,220,053	938,617	1,483	5,160,153
Due to other funds	243,012	—	109,891	352,903
Total liabilities	41,215,610	3,007,974	6,051,374	50,274,958
Fund balances:				
Unreserved	57,156,643	17,661,116	27,573,430	102,391,189
Total liabilities and fund balances	\$ 98,372,253	20,669,090	33,624,804	\$ 152,666,147
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.	(120,657,000)	(5,570,000)		(126,227,000)
Fund Balances (Deficiencies)	\$ (63,500,357)	12,091,116		\$ (23,835,811)

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, 2004

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Revenues:				
Contributions:				
Members	\$ 75,615,208	31,771,180	1,218,861	\$ 108,605,249
Employers	891,181,832	29,872,124	221,325,446	1,142,379,402
Total contributions	966,797,040	61,643,304	222,544,307	1,250,984,651
Investment income:				
Net appreciation (depreciation) in fair value of investments	(23,698)	(13,891)	(19,306)	(56,895)
Interest	444,174	213,464	255,489	913,127
Total investment income	420,476	199,573	236,183	856,232
Total revenues	967,217,516	61,842,877	222,780,490	1,251,840,883
Expenditures:				
Benefits	918,995,580	63,841,435	219,858,641	1,202,695,656
Administrative expense	2,656,283	—	—	2,656,283
Total expenditures	921,651,863	63,841,435	219,858,641	1,205,351,939
Excess (deficiency) of revenues over (under) expenditures	45,565,653	(1,998,558)	2,921,849	46,488,944
Fund Balances:				
Beginning of year	11,590,990	19,659,674	24,651,581	55,902,245
End of year	\$ 57,156,643	17,661,116	27,573,430	\$ 102,391,189
Benefits — Modified Accrual	918,995,580	63,841,435	219,858,641	1,202,695,656
Benefits — Full Accrual	1,039,652,580	69,411,435	219,858,641	1,328,922,656
Adjustment of IBNR	(120,657,000)	(5,570,000)	0	(126,227,000)
Adjusted Fund Balance: End of Year	\$ (63,500,357)	12,091,116	27,573,430	\$ (23,835,811)

See accompanying notes to financial statements.



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

Statement of Net Assets

Proprietary Funds

June 30, 2004

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Assets:			
Cash and cash equivalents	\$ 818,250	133,185	\$ 951,435
Investments, at fair value:			
Cash Management Fund	305,671,011	7,998,970	313,669,981
Total investments	305,671,011	7,998,970	313,669,981
Receivables:			
Other	76,337,116	7,697,163	84,034,279
Due from other funds	962,960	—	962,960
Total receivables	77,300,076	7,697,163	84,997,239
Total assets	\$ 383,789,337	15,829,318	\$ 399,618,655
Liabilities:			
Accounts payable and accrued expenses	\$ 45,021,143	—	\$ 45,021,143
Incurred but not reported claims	205,220,000	6,330,000	211,550,000
Deferred revenue	4,836,606	—	4,836,606
Due to other funds	340,857	520,859	861,716
Total liabilities	255,418,606	6,850,859	262,269,465
Net Assets	\$ 128,370,731	8,978,459	\$ 137,349,190

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2004

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Operating Revenues:			
Contributions:			
Members	\$ 85,100,730	520,851	\$ 85,621,581
Employers	1,599,620,526	83,513,660	1,683,134,186
Total operating revenues	1,684,721,256	84,034,511	1,768,755,767
Operating Expenses:			
Benefits	1,613,409,939	83,434,793	1,696,844,732
Administrative expense	3,835,625	—	3,835,625
Total operating expenses	1,617,245,564	83,434,793	1,700,680,357
Operating income	67,475,692	599,718	68,075,410
Non-operating revenue:			
Investment income:			
Net appreciation (depreciation) in fair value of investments	(160,032)	(4,826)	(164,858)
Interest	2,942,092	63,872	3,005,964
Total non-operating revenue	2,782,060	59,046	2,841,106
Change in net assets	70,257,752	658,764	70,916,516
Net Assets:			
Beginning of year	58,112,979	8,319,695	66,432,674
End of year	\$ 128,370,731	8,978,459	\$ 137,349,190

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, 2004

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Cash flows from operating activities:			
Receipts - Employer Contributions	\$ 1,599,437,621	82,946,231	\$ 1,682,383,852
Receipts - Member Contributions	85,326,884	515,837	85,842,721
Benefit payments	(1,514,132,484)	(82,233,301)	(1,596,365,785)
Premium payments	(49,226,232)	—	(49,226,232)
Administrative expense	(3,911,407)	—	(3,911,407)
Net cash provided by operating activities	117,494,382	1,228,767	118,723,149
Cash flows from investing activities:			
Interest and dividends	2,942,092	63,872	3,005,964
Sale/purchase of investments	(122,956,360)	(1,213,471)	(124,169,831)
Net cash provided by investing activities	(120,014,268)	(1,149,599)	(121,163,867)
Increase/decrease in cash equivalents	(2,519,886)	79,168	(2,440,718)
Cash and cash equivalents beginning of year	3,338,135	54,017	3,392,152
Cash and cash equivalents end of year	\$ 818,249	133,185	\$ 951,434
Reconciliation of operating income to net cash provided by operating activities			
Operating Income	\$ 67,475,692	599,718	\$ 68,075,410
Adjustments to reconcile operating income to net cash used by operating activities:			
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivable	(385,260)	(572,443)	(957,703)
(Increase)/decrease in interfund receivable	428,508	—	428,508
Increase/(decrease) in accounts payable	49,975,442	1,630,000	51,605,442
Increase/(decrease) in service charges payable	—	—	—
Increase/(decrease) in due to other funds	—	(428,508)	(428,508)
Total adjustments	50,018,690	629,049	50,647,739
Net cash provided by operating activities	\$ 117,494,382	1,228,767	\$ 118,723,149

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	PENSION TRUST FUNDS
Assets:	
Cash and cash equivalents	\$ 591,231
Investments, at fair value:	
Cash Management Fund	2,230,432,274
Bonds	567,671,260
Common Pension Fund A	33,901,981,179
Common Pension Fund B	16,690,837,160
Common Pension Fund D	13,452,342,846
Common and preferred stocks	994,764,914
Mortgages	1,401,875,797
Total investments	69,239,905,430
Receivables:	
Contributions:	
Members	183,198,741
Employers	1,145,908,023
Accrued interest and dividends	330,682,714
Members' loans	1,153,834,380
Other	31,962,247
Due from other funds	—
Total receivables	2,845,586,105
Total assets	\$ 72,086,082,766
Liabilities:	
Accounts payable and accrued expenses	\$ 43,847,060
Retirement benefits payable	374,023,829
NCGI premiums payable	9,495,595
Cash overdraft	9,869,643
Total liabilities	437,236,127
Net Assets:	
Held in trust for pension benefits	\$ 71,648,846,639

See accompanying notes to financial statements.



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

Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds
June 30, 2004

	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	\$ —	8,864	127,592	281,877	15,943	—	156,955
Investments, at fair value:							
Cash Management Fund	3,101,889	29,336	12,999,536	285,417,061	27,456,203	432,623,728	5,582,517
Bonds	—	—	198,015	218,036,904	—	6,423,878	7,408,780
Common Pension Fund A	—	—	—	—	161,198,258	7,740,431,927	—
Common Pension Fund B	—	—	—	—	64,499,533	3,162,429,106	—
Common Pension Fund D	—	—	—	—	64,443,023	3,070,174,067	—
Common and Preferred Stocks	—	—	—	850,637,468	—	—	—
Mortgages	—	—	1,023,691	—	4,963,743	1,026,565,950	2,676,720
Total investments	3,101,889	29,336	14,221,242	1,354,091,493	322,560,760	15,438,648,656	15,668,017
Receivables:							
Contributions:							
Members	—	—	—	74,442	66,107	47,104,066	—
Employers	—	21,187	—	—	—	390,478,775	—
Accrued interest and dividends	—	7	6,540	3,438,920	1,366,875	74,087,774	—
Members' loans	—	—	—	—	610,046	464,718,668	—
Other	—	2,383	2,367,887	1,106,602	—	24,533,213	280,467
Total receivables	—	23,577	2,374,427	4,619,964	2,043,028	1,000,922,496	280,467
Total assets	\$ 3,101,889	61,777	16,723,261	1,358,993,334	324,619,731	16,439,571,152	16,105,439
Liabilities:							
Accounts payable and accrued expenses	\$ —	20,552	14,836	339,893	20,147	2,085,411	980
Retirement benefits payable	—	41,225	1,329,147	5,377,311	2,219,424	79,948,728	220,031
NCGI premiums payable	—	—	—	—	—	1,746,494	—
Cash overdraft	—	—	—	—	—	2,594,187	—
Total liabilities	—	61,777	1,343,983	5,717,204	2,239,571	86,374,820	221,011
Net assets held in trust for pension and post-retirement medical benefits	\$ 3,101,889	—	15,379,278	1,353,276,130	322,380,160	16,353,196,332	15,884,428

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds
June 30, 2004

	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	—	—	—	—	—	—	\$ 591,231
Investments, at fair value:							
Cash Management Fund	257,591,562	13,273	118,684,334	1,834,102	1,085,082,450	16,283	2,230,432,274
Bonds	274,126,748	14,126	—	—	61,461,827	922	567,671,260
Common Pension Fund A	10,938,341,699	563,647	833,091,311	—	14,228,140,825	213,512	33,901,981,179
Common Pension Fund B	5,927,626,792	305,447	363,739,001	—	7,172,129,653	107,628	16,690,837,160
Common Pension Fund D	4,340,735,626	223,676	330,338,345	—	5,646,343,378	84,731	13,452,342,846
Common and Preferred Stocks	—	—	—	144,127,446	—	—	994,764,914
Mortgages	156,840,502	8,082	10,553,318	—	199,240,801	2,990	1,401,875,797
Total investments	21,895,262,929	1,128,251	1,656,406,309	145,961,548	28,392,398,934	426,066	69,239,905,430
Receivables:							
Contributions:							
Members	58,986,918	—	902,488	429,928	75,634,792	—	183,198,741
Employers	691,223,689	—	—	—	64,184,372	—	1,145,908,023
Accrued interest and dividends	109,715,145	—	7,279,612	180,200	134,607,641	—	330,682,714
Members' loans	432,512,607	—	30,179,898	—	225,813,161	—	1,153,834,380
Other	2,616,687	—	1,426	15,436	1,038,146	—	31,962,247
Total receivables	1,295,055,046	—	38,363,424	625,564	501,278,112	—	2,845,586,105
Total assets	23,190,317,975	1,128,251	1,694,769,733	146,587,112	28,893,677,046	426,066	\$ 72,086,082,766
Liabilities:							
Accounts payable and accrued expenses	24,042,413	—	53,668	117,854	17,151,306	—	\$ 43,847,060
Retirement benefits payable	124,006,633	—	7,544,671	567,673	152,768,986	—	374,023,829
NCGI premiums payable	5,693,432	—	—	—	2,055,669	—	9,495,595
Cash overdraft	4,351,341	—	86,498	860,496	1,977,121	—	9,869,643
Total liabilities	158,093,819	—	7,684,837	1,546,023	173,953,082	—	437,236,127
Net assets held in trust for pension and post-retirement medical benefits	23,032,224,156	1,128,251	1,687,084,896	145,041,089	28,719,723,964	426,066	\$ 71,648,846,639



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2004

	PENSION TRUST FUNDS
Additions:	
Contributions:	
Members	\$ 1,196,974,064
Employers	1,504,583,395
Other	11,353,192
Total contributions	2,712,910,651
Investment income:	
Net appreciation in fair value of investments	6,833,728,147
Interest	1,397,127,682
Dividends	582,417,315
	8,813,273,144
Less: investment expense	8,069,985
Net investment income	8,805,203,159
Total additions	11,518,113,810
Deductions:	
Benefits	5,276,329,933
Refunds of contributions and due General Fund	101,777,214
Administrative expenses	32,219,076
Total deductions	5,410,326,223
Change in net assets	6,107,787,587
Net assets - Beginning of year	65,541,059,052
Net assets - End of year	\$ 71,648,846,639

See accompanying notes to financial statements.



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, 2004

	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	\$ —	—	—	129,545,400	1,795,721	263,173,065	—
Employers	2,000,000	425,229	2,000,402	—	5,084,315	264,164,091	—
Other	—	29,716	10,054,671	—	—	—	1,264,147
Total contributions	2,000,000	454,945	12,055,073	129,545,400	6,880,036	527,337,156	1,264,147
Investment income:							
Net appreciation (depreciation) in fair value of investments	(2,204)	—	(84,541)	121,397,297	35,511,678	1,498,740,652	(590,765)
Interest	44,629	787	245,771	13,693,692	5,285,976	318,069,582	691,732
Dividends	—	—	—	11,745,238	2,696,195	127,838,134	—
Less: investment expense	42,425	787	161,230	146,836,227	43,493,849	1,944,648,368	100,967
	—	—	8,966	200,538	17,676	1,010,059	1,785
Net investment income	42,425	787	152,264	146,635,689	43,476,173	1,943,638,309	99,182
Total additions	2,042,425	455,732	12,207,337	276,181,089	50,356,209	2,470,975,465	1,363,329
Deductions:							
Benefits	1,859,858	435,528	16,829,838	58,415,128	27,064,394	987,055,680	2,750,556
Refunds of contributions	—	20,204	—	—	139,889	7,148,274	—
Administrative expenses	—	—	28,831	809,953	169,824	3,530,770	6,298
Total deductions	1,859,858	455,732	16,858,669	59,225,081	27,374,107	997,734,724	2,756,854
Net increase (decrease)	182,567	—	(4,651,332)	216,956,008	22,982,102	1,473,240,741	(1,393,525)
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	2,919,322	—	20,030,610	1,136,320,122	299,398,058	14,879,955,591	17,277,953
End of year	\$ 3,101,889	—	15,379,278	1,353,276,130	322,380,160	16,353,196,332	15,884,428

See accompanying notes to financial statements.



**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, 2004

	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	374,864,048	—	14,682,524	7,217,751	405,695,555	—	\$ 1,196,974,064
Employers	605,793,071	168,659,302	45,339	—	31,660,323	424,751,323	1,504,583,395
Other	4,592	—	66	—	—	—	11,353,192
Total contributions	980,661,711	168,659,302	14,727,929	7,217,751	437,355,878	424,751,323	2,712,910,651
Investment income:							
Net appreciation (depreciation) in fair value of investments	2,098,276,346	135,690	174,220,969	21,166,968	2,884,910,953	45,104	6,833,728,147
Interest	499,713,132	—	28,386,214	59,835	530,936,332	—	1,397,127,682
Dividends	184,665,089	—	13,694,619	2,481,466	239,296,574	—	582,417,315
	2,782,654,567	135,690	216,301,802	23,708,269	3,655,143,859	45,104	8,813,273,144
Less: investment expense	4,147,000	—	92,811	—	2,591,150	—	8,069,985
Net investment income	2,778,507,567	135,690	216,208,991	23,708,269	3,652,552,709	45,104	8,805,203,159
Total additions	3,759,169,278	168,794,992	230,936,920	30,926,020	4,089,908,587	424,796,427	11,518,113,810
Deductions:							
Benefits	1,603,185,278	168,620,958	89,272,063	14,651,852	1,881,501,253	424,687,547	5,276,329,933
Refunds of contributions	65,677,159	—	53,968	—	28,737,720	—	101,777,214
Administrative expenses	18,619,582	—	264,858	—	8,788,960	—	32,219,076
Total deductions	1,687,482,019	168,620,958	89,590,889	14,651,852	1,919,027,933	424,687,547	5,410,326,223
Net increase (decrease)	2,071,687,259	174,034	141,346,031	16,274,168	2,170,880,654	108,880	6,107,787,587
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning 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
End of year	23,032,224,156	1,128,251	1,687,084,896	145,041,089	28,719,723,964	426,066	\$ 71,648,846,639



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

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	AGENCY FUNDS
Assets:	
Cash and cash equivalents	\$ 949,398
Investments, at fair value:	
Cash Management Fund	15,118,321
Total investments	15,118,321
Receivables:	
Contributions:	
Employers	2,484,014
Other	8,743,572
Total receivables	11,227,586
Total assets	\$ 27,295,305
Liabilities:	
Accounts payable and accrued expenses	\$ 20,036,372
Participant distributions payable	3,808,277
Pension adjustment payroll payable	912,004
Due to State of New Jersey	1,029,403
Other	1,509,249
Total liabilities	27,295,305
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, 2004

	AGENCY FUNDS
Additions:	
Contributions:	
Members	\$ 699,121
Employers	132,369,860
Total contributions	133,068,981
Investment income:	
Net (depreciation) in fair value of investments	(14,099)
Interest	188,535
Total investment income	174,436
Total additions	133,243,417
Deductions:	
Benefits	132,187,587
Refunds of contributions and due General Fund	1,055,830
Total deductions	133,243,417
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, 2004

(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, NJSEDCP, and ABPLTD which are single-employer defined contribution plans.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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.

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. Agency funds as well as 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., revenues and other financing additions, and decreases, i.e., expenditures and other deductions, in net assets.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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." 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 due and payable.

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 when due and payable.

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.

In addition to complying with all applicable GASB pronouncements, the Division's financial statements comply with the guidance provided by the Financial Accounting Standards Board ("FASB"), the Accounting Principles Board and the Committee on Accounting Procedure issued on or before November 30, 1989. GASB pronouncements take precedence when there is a conflict or contradiction between pronouncements. The Division has elected not to apply FASB pronouncements issued after November 30, 1989.

Capital Assets:

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

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.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management 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, 2004, all investments held by the Funds (other than mortgage 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 246, P.L. 2004, "Domestic Partnership Act" establishes the rights and responsibilities of domestic partnerships effective July 10, 2004.

P.L. 2003, effective July 14, 2003, provided 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;



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

Chapter 108, P.L. 2003, effective July 1, 2003, provided 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 paid only 20% of the normal and accrued liability pension costs by using the benefit enhancement fund.

Chapter 108, P.L. 2003 also provided 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 allowed 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, 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.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Membership and Contributing Employers:

Membership and contributing employers of the Pension Trust Funds consisted of the following at June 30, 2003 the date of the most recent actuarial valuations (June 30, 2004 for SACT, CPF, NJSEDCP, and ABPLTD):

	JRS	PFRS	PERS	SPRS	TPAF	POPF	CPFPF	SACT	CPF
Retiree members:									
Retirees and beneficiaries receiving benefits currently	402	26,682	114,702	2,080	59,331	214	1,062	645	350
Terminated employees entitled to benefits but not yet receiving them	4	64	1,843	—	1,030	—	—	—	—
Total retiree members	406	26,746	116,545	2,080	60,361	214	1,062	645	350
Active members:									
Vested	228	26,365	152,259	1,790	76,378	—	—	4,098	—
Non-vested	205	17,613	142,888	903	69,504	—	—	—	—
Total active members	433	43,978	295,147	2,693	145,882	—	—	4,098	—
Total	839	70,724	411,692	4,773	206,243	214	1,062	4,743	350
Contributing Employers	1	584	1,661	1	107	1	1	—	1

	NJSEDCP	ABPLTD
Retiree members:		
Retirees and beneficiaries receiving benefits currently	2,467	—
Terminated employees entitled to benefits but not yet receiving them	—	—
Total retiree members	2,467	—
Active members:		
Vested	31,078	110
Non-vested	—	—
Total active members	31,078	110
Total	33,545	110
Contributing Employers	—	1



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Membership in the other funds, systems, and trusts administered by the Division consisted of the following as of June 30, 2004:

	STATE	LOCAL	TOTAL
Health Benefits Program Fund*	142,342	216,267	358,609
Prescription Drug Program Fund	109,831	38,333	148,164
Dental Expense Program Fund	99,072	—	99,072
Alternate Benefit Program Fund**	14,454	3,161	17,615
Pension Adjustment Fund	87,898	95,094	182,992

* 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.

Under the new Internal Revenue Service regulations, effective January 1, 2004, the Division changed its pension loan repayment policy: Members who take multiple loans must repay the outstanding balance of the original loan, and all subsequent loans taken before the original loan is completely paid off, within a period not to exceed 5 years from the issuance of the first loan taken after January 1, 2004. Failure to repay the loan within the five-year period will result in the unpaid balance being declared a taxable distribution.

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 paid by the State of New Jersey, who is responsible for such costs.

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, with the exception of the ABPLTD which is a qualified plan as described in Section 403(b) and the NJSEDCP which is an eligible plan as described in Section 457 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 custodial 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



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2004, which includes funding for the July 1, 2004 retirement payroll, are designated Category 3. The cash balances of all funds total \$2.54 million.

(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 \$3.36 million to satisfy the actuarially accrued liability in fiscal year 2004.

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.

The State made a contribution of \$1.95 million to satisfy the actuarially accrued liability in fiscal year 2004.

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.

For fiscal year 2004, the 50% 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.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(3) CONTRIBUTIONS, Continued

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 2004, excess valuation assets were utilized to fund required State contributions of \$7.03 million.

In 2004, actuarially determined excess valuation assets also covered required local employer contributions of \$31.71 million. 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, provided 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, and the rate for State employees will return to the normal rate of 5% effective July 1, 2004 per statute since there are no longer surplus assets available in the System. On the other hand, the rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) and the rate for the Workers' Compensation Judges Part of the PERS (Chapter 259, P.L. 2001) will remain unchanged at 7.5% and 5% of base salary, respectively. However, the rate for local employees will return to the normal rate of 5% effective January 1, 2005. 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 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 2004, the 68% of available excess valuation assets could be utilized to offset normal con-



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(3) CONTRIBUTIONS, Continued

tributions. 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 2004. 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 \$168.66 million for fiscal year 2004 post-retirement medical (PRM). 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.

To fund the benefit increases provided by Chapter 133, P.L. 2001, 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) provided 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 paid only 20% of the normal and accrued liability pension costs by using the BEF.

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 contribute 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, 2002. Prior to this date, employees had been contributing at a rate of 4.5%. The rate returned to the normal rate of 5% effective January 1, 2004 per statute since there are no longer surplus assets available in the Fund. Employers



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(3) CONTRIBUTIONS, Continued

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 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 2004, 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 State and local employers were not required to make a normal contribution to the TPAF in between the years 1997 and 2004. 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 \$424.75 million for fiscal year 2004 post-retirement medical (PRM). 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.

To fund the benefit increases provided by Chapter 133, P.L. 2001, 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. 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. In fiscal year 2004, the State paid only 20% of the normal and accrued liability pension cost by using the BEF.

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.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2004

(3) CONTRIBUTIONS, Continued

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, 2004 was \$425 thousand.

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 Program Fund are collected from the State of New Jersey, participating local employers, and former active and retired members 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 PDPF 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 Expense Program Fund 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 DEPF 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 \$13 thousand



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(3) CONTRIBUTIONS, Continued

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 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



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(4) VESTING AND BENEFITS, Continued

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 - CPFPPF

The vesting and benefit provisions are set by N.J.S.A. 43:16. The CPFPPF 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 was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit 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 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 providing no survivor death benefits are payable.

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.



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

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 was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit 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 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



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

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 were 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 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 com-



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

pensation, 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.

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 ordi-



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

nary 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 were 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 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



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(4) VESTING AND BENEFITS, Continued

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 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 was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit would increase from 65% to 70% of final compensation.

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



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(5) FUNDS

The Funds maintain the following legally required funds as follows:

Members' Annuity Savings Fund - JRS (\$25,325,098); TPAF (\$6,430,036,107); PERS (\$6,689,917,734); PFRS (\$2,269,456,484); SPRS (\$137,630,230)

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

Contingent Reserve Fund - JRS (\$155,567,001); TPAF (\$2,156,950,936); PERS (\$1,394,613,547); SPRS (\$1,032,820,012)

The Contingent Reserve Fund is credited with the contributions of contributing employers other than post-retirement medical contributions. Interest earnings, after crediting the Accumulative 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 (\$141,488,061); TPAF (\$19,195,861,683); PERS (\$13,887,326,848); PFRS (\$7,962,500,646); SPRS (\$516,634,654)

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 additional 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 2004) is credited to the Retirement Reserve Fund.

Retirement Reserve Fund - POPF (\$15,884,428)

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 (\$282,911,620); PERS (\$217,021,510); PFRS (\$154,386,487)

The Special Reserve Fund is a fund to which any excess interest earnings and gains from sales and maturities 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 (\$100,156,283); PERS (\$194,869,806)

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 (\$5,966,852,715)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
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(5) FUNDS, Continued

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 - CPFPPF (\$15,379,278)

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

Reserve Fund - SHBP - State (\$57,156,643); PDPF - State (\$27,573,430); DEPF (\$17,661,116)

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, 2004 are reported in the State's general long-term debt account group.

Reserve Fund - SHBP - Local (\$128,370,731); PDPF - Local (\$8,978,459)

The SHBP - local has net assets of \$128,370,731 as of June 30, 2004. The deficit of the fiscal year 2002 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 (\$3,101,889)

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

Post-Retirement Medical Fund - TPAF (\$426,066); PERS (\$1,128,251)

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 (\$553,807,335); PERS (\$648,474,711)

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 fund was established in 2002 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.



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June 30, 2004

(5) FUNDS, Continued

Various Reserve Fund Balances as of June 30, 2004 as described previously:

FUNDS	PENSION TRUST FUNDS	GOVERNMENTAL FUNDS	PROPRIETARY FUNDS
Members' Annuity Savings Fund	\$15,552,365,653		
Contingent Reserve Fund	4,739,951,496		
Retirement Reserve Fund	41,719,696,320		
Special Reserve Fund	654,319,617		
Contributory Group Insurance Premium Fund	295,026,089		
Pension Accumulation Fund	5,966,852,715		
Pension Reserve Fund	15,379,278		
Reserve Fund	3,101,889	102,391,189	137,349,190
Post-Retirement Medical Fund	1,554,317		
Benefit Enhancement Reserve Fund	1,202,282,046		
Variable Accumulation Reserve Account	1,469,322,171		
Variable Benefits Reserve Account	28,995,048		
Total	\$71,648,846,639	\$102,391,189	\$137,349,190



STATE OF NEW JERSEY
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June 30, 2004

(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 2004 and 2003:

Fiscal Year 2004

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL
Unpaid claims at beginning of year	\$ 200,486,104	\$ 4,700,000
Incurred claims:		
Provision for insured events of current year	1,613,409,939	83,434,793
Payments	(1,563,654,900)	(81,804,793)
Unpaid claims at end of year	\$ 250,241,143	\$ 6,330,000

Fiscal Year 2003

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL
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



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL ((b - a) / c)
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%
June 30, 2003	372,835,265	431,450,218	58,614,953	86.4%	61,600,500	95.2%
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
June 30, 2003	27,623,585	41,396,376	13,772,791	66.7%	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%
June 30, 2003	1,907,107,359	2,288,937,652	381,830,293	83.3%	447,470,022	85.3%
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%
June 30, 2003	16,447,612,874	18,258,853,488	1,811,240,614	90.1%	2,393,467,444	75.7%
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
June 30, 2003	17,277,953	10,727,647	(6,550,306)	161.1%	N/A	N/A



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information
 Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL (b - a) / c
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%)
June 30, 2003	10,829,953,189	11,942,299,170	1,112,345,981	90.7%	3,576,118,300	31.1%
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%)
June 30, 2003	16,406,284,200	15,887,012,746	(519,271,454)	103.3%	5,811,726,702	(8.9%)
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%)
June 30, 2003	1,865,079,083	1,815,725,256	(49,353,827)	102.7%	217,448,864	(22.7%)
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%
June 30, 2003	34,651,825,932	37,383,732,882	2,731,906,950	92.7%	7,702,854,159	35.5%



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information, Continued
 Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent 2003 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%	2.00%
Salary range	5.95%	—
Cost-of-living adjustments	2.40%	—
Valuation date	June 30, 2003	June 30, 2003
	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, 2003	June 30, 2003



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information, Continued
 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	38 years for UAAL balance 8 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, 2003	June 30, 2003
	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	30 years	
Actuarial assumptions:		
Interest rate	8.75%	
Salary range	5.95%	
Cost-of-living adjustments	2.40%	
Valuation date	June 30, 2003	



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 ⁽¹⁾	PERCENTAGE CONTRIBUTED
JUDICIAL RETIREMENT SYSTEM			
1997	\$ 18,406,865	\$ 110,483,753 ⁽²⁾	600.2%
1998	14,658,095	13,478,708	92.0%
1999	13,416,851	—	0.0%
2000	13,407,153	—	0.0%
2001	12,816,557	—	0.0%
2002	15,575,602	—	0.0%
2003	16,913,237	8,467,287	50.1%
2004	18,720,233	3,355,438	17.9%
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND			
1997	\$ 10,580,991	\$ 43,995,746 ⁽²⁾	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%
2004	5,330,714	1,950,425	36.6%
POLICE AND FIREMEN'S RETIREMENT SYSTEM			
State			
1997	\$ 111,775,028	\$ 715,344,385 ⁽²⁾	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%
2004	118,297,232	22,215,429	18.8%
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%
2004	316,272,883	53,396,685	16.9%
PRISON OFFICERS' PENSION FUND			
1997	\$ 2,949,604	\$ 21,688,219 ⁽²⁾	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	N/A
2003	—	—	N/A
2004	—	—	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 ⁽¹⁾	PERCENTAGE CONTRIBUTED
PUBLIC EMPLOYEES' RETIREMENT SYSTEM			
State			
1997	\$ 134,878,582	\$ 241,106,642 ⁽²⁾	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%
2004	50,365,892	—	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
2004	—	20,882,718	N/A
STATE POLICE RETIREMENT SYSTEM			
1997	\$ 44,384,679	\$ 120,308,862 ⁽²⁾	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%
2004	37,600,821	—	0.0%
TEACHERS' PENSION AND ANNUITY FUND			
1997	\$ 372,060,546	\$ 1,601,688,633 ⁽²⁾	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%
2004	686,284,850	—	0.0%

Notes to schedule:

- (1) In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund, in full or in part, required employer contributions.
- (2) For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.
- (3) The local employer contribution to the PERS from 1998 to 2004 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, 2004

HEALTH BENEFITS PROGRAM FUND - LOCAL	FISCAL YEAR ENDED JUNE 30, 2004
Premiums and investment revenue Earned	\$ 1,687,503,316
Estimated losses and expenses	1,617,245,564
PRESCRIPTION DRUG PROGRAM FUND - LOCAL	FISCAL YEAR ENDED JUNE 30, 2004
Premiums and investment revenue Earned	\$ 84,093,557
Estimated losses and expenses	83,434,793



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Administrative Expenses

Year ended June 30, 2004

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	NJSEDCP	TOTAL
Personnel Services									
Salaries & Wages	\$8,529,988	\$4,189,665	\$1,408,541	\$9,452	\$2,086	\$100,141	\$91,281	\$263,037	\$14,594,191
Employee Benefits	2,447,931	1,198,857	401,711	3,008	659	28,934	25,957	76,545	4,183,602
Total Personnel Services	10,977,919	5,388,522	1,810,252	12,460	2,745	129,075	117,238	339,582	18,777,793
Professional Services									
Actuarial Services	578,043	148,877	454,542	5,937	1,247	30,562	5,294	—	1,224,502
Data Processing	1,098,294	475,251	135,168	1,194	371	10,115	12,849	46,512	1,779,754
Information Systems	1,933,625	890,671	276,798	1,044	260	19,637	14,498	153,521	3,290,054
Other Professional**	174,956	87,008	29,664	387	81	1,994	1,346	208,099	503,535
Medical Review*	267,952	40,456	177,330	—	—	32,830	—	—	518,568
Elections*	81,978	—	48,389	—	—	—	—	—	130,367
Internal Audit & Legal	438,440	218,042	74,337	971	104	4,998	1,866	—	738,758
Total Professional Services	4,573,288	1,860,305	1,196,228	9,533	2,063	100,136	35,853	408,132	8,185,538
Communication									
Travel	15,871	23,568	7,600	29	6	466	26	3,008	50,574
Telephone	147,050	73,130	24,932	326	68	1,676	1,790	2,800	251,772
Postage	487,928	242,653	82,728	618	136	5,562	2,490	42,000	864,115
Motor Pool	10,615	5,279	1,800	24	5	121	21	—	17,865
Printing & Office	400,541	197,708	67,051	1,398	641	4,950	4,270	1,931	678,490
Total Communication	1,062,005	542,338	184,111	2,395	856	12,775	8,597	49,739	1,862,816
Miscellaneous									
Office Space	1,651,988	821,556	280,094	3,658	469	18,832	7,262	12,000	2,795,859
Maintenance	56,248	27,973	9,537	125	26	641	111	—	94,661
Equipment	298,134	148,266	50,548	660	139	3,399	589	—	501,735
Other Services & Charges	—	—	—	—	—	—	174	500	674
Total Miscellaneous	2,006,370	997,795	340,179	4,443	634	22,872	8,136	12,500	3,392,929
Total Administrative Expense	\$18,619,582	\$8,788,960	\$3,530,770	\$28,831	\$6,298	\$264,858	\$169,824	\$809,953	\$32,219,076

* Consulting

**Portion of Consulting



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

Schedule of Investment Expenses
Year ended June 30, 2004

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	NJSEDCP	TOTAL
Investment Expense	\$3,570,514	\$1,768,370	\$607,567	\$8,966	\$1,785	\$41,405	\$7,096	\$200,538	\$6,206,241
Global Custody, Fees	576,486	822,780	402,492	—	—	51,406	10,580	—	1,863,744
Total Investment Expenses	\$4,147,000	\$2,591,150	\$1,010,059	\$8,966	\$1,785	\$92,811	\$17,676	\$200,538	\$8,069,985



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

Schedule of Expenses for Consultants
Year ended June 30, 2004

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	TOTAL
Actuarial Mellon Milliman, Inc	\$ 578,043	—	\$454,542	\$5,937	\$1,247	\$30,562	\$5,294	\$1,075,625
Exams/Hearings	267,952	148,877	—	—	—	—	—	148,877
Unemployment Contract TALX Elections	30,614	40,456	177,330	—	—	32,830	—	518,568
Corporate Marketing	81,978	15,229	5,197	—	—	360	51	51,451
Total Expenses for Consultants	\$958,587	\$204,562	\$685,458	\$5,937	\$1,247	\$63,752	\$5,345	\$1,924,888

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Assets:			
Cash and cash equivalents	\$ 591,231	—	\$ 591,231
Investments, at fair value:			
Cash Management Fund	2,230,402,718	29,556	2,230,432,274
Bonds	567,656,212	15,048	567,671,260
Common Pension Fund A	33,901,204,020	777,159	33,901,981,179
Common Pension Fund B	16,690,424,085	413,075	16,690,837,160
Common Pension Fund D	13,452,034,439	308,407	13,452,342,846
Common and preferred stocks	994,764,914	—	994,764,914
Mortgages	1,401,864,725	11,072	1,401,875,797
Total investments	69,238,351,113	1,554,317	69,239,905,430
Receivables:			
Contributions:			
Members	183,198,741	—	183,198,741
Employers	1,145,908,023	—	1,145,908,023
Accrued interest and dividends	330,682,714	—	330,682,714
Members' loans	1,153,834,380	—	1,153,834,380
Other	31,962,247	—	31,962,247
Total receivables	2,845,586,105	—	2,845,586,105
Total assets	\$ 72,084,528,449	1,554,317	\$ 72,086,082,766
Liabilities:			
Accounts payable and accrued expenses	\$ 43,847,060	—	\$ 43,847,060
Retirement benefits payable	374,023,829	—	374,023,829
NCGI premiums payable	9,495,595	—	9,495,595
Cash overdraft	9,869,643	—	9,869,643
Total liabilities	437,236,127	—	437,236,127
Net assets held in trust for pension and post-retirement medical benefits	\$ 71,647,292,322	1,554,317	\$ 71,648,846,639



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2004

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Additions:			
Contributions:			
Members	\$ 1,196,974,064	—	\$ 1,196,974,064
Employers	911,172,770	593,410,625	1,504,583,395
Other	11,353,192	—	11,353,192
Total contributions	2,119,500,026	593,410,625	2,712,910,651
Investment income:			
Net appreciation in fair value of investments	6,833,547,353	180,794	6,833,728,147
Interest	1,397,127,682	—	1,397,127,682
Dividends	582,417,315	—	582,417,315
	8,813,092,350	180,794	8,813,273,144
Less: investment expense	8,069,985	—	8,069,985
Net investment income	8,805,022,365	180,794	8,805,203,159
Total additions	10,924,522,391	593,591,419	11,518,113,810
Deductions:			
Benefits	4,683,021,428	593,308,505	5,276,329,933
Refunds of contributions	101,777,214	—	101,777,214
Administrative expenses	32,219,076	—	32,219,076
Total deductions	4,817,017,718	593,308,505	5,410,326,223
Net decrease	6,107,504,673	282,914	6,107,787,587
Net assets held in trust for pension and post-retirement medical benefits:			
Beginning of year	65,539,787,649	1,271,403	65,541,059,052
End of year	\$ 71,647,292,322	1,554,317	\$ 71,648,846,639



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Balance Sheet
Fiduciary Funds - Agency Funds
June 30, 2004

	ALTERNATE BENEFIT PROGRAM FUND	PENSION ADJUSTMENT FUND	TOTAL
Assets:			
Cash and cash equivalents	\$ 261,287	688,111	\$ 949,398
Investments, at fair value:			
Cash Management Fund	11,949,036	3,169,285	15,118,321
Total investments	11,949,036	3,169,285	15,118,321
Receivables:			
State related employer contributions	—	2,484,014	2,484,014
Other	8,734,029	9,543	8,743,572
Total receivables	8,734,029	2,493,557	11,227,586
Total assets	\$ 20,944,352	6,350,953	\$ 27,295,305
Liabilities:			
Accounts payable and accrued expenses	\$ 20,036,372	—	\$ 20,036,372
Assets held for state-related employers	—	3,808,277	3,808,277
Pension adjustment payroll payable	—	912,004	912,004
Due to State of New Jersey	907,980	121,423	1,029,403
Other	—	1,509,249	1,509,249
Total liabilities	\$ 20,944,352	6,350,953	\$ 27,295,305



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, 2004

Additions:

Contributions:	
Members	\$ 699,121
Employers	120,967,986
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Total contributions	121,667,107
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Investment income:	
Net appreciation (depreciation) in fair value of investments	(11,074)
Interest	112,434
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Total investment income	101,360
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Total additions	121,768,467
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Deductions:

Benefits	120,827,308
Refunds of contributions and due General Fund	941,159
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Total deductions	\$ 121,768,467
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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, 2004

Additions:

Contributions:	
Employers	\$ 11,401,874
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Total contributions	11,401,874
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Investment income:	
Net appreciation (depreciation) in fair value of investments	(3,025)
Interest	76,101
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Total investment income	73,076
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Total additions	11,474,950
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Deductions:

Benefits	11,360,279
Refunds of contributions and due General Fund	114,671
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Total deductions	\$ 11,474,950
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