



**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Pension Amounts

June 30, 2017

(With Independent Auditors' Report Thereon)

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

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Independent Auditors' Report

The Treasurer
State of New Jersey:

We have audited the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts of the State of New Jersey Judicial Retirement System as of and for the year ended June 30, 2017, and the related notes.

Management's Responsibility for the Schedule

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

Auditors' Responsibility

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

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

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



Opinions

In our opinion, the schedule referred to above presents fairly, in all material respects, the net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the State of New Jersey Judicial Retirement System as of and for the year ended June 30, 2017 in accordance with U.S. generally accepted accounting principles.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of New Jersey, Division of Pensions and Benefits, which includes the Judicial Retirement System, as of and for the year ended June 30, 2017, and our report thereon, dated March 29, 2018, expressed an unmodified opinion on those financial statements.

Restriction on Use

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

KPMG LLP

Short Hills, New Jersey
June 13, 2018

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Pension Amounts

As of and for the year ended June 30, 2017

	Deferred outflows of resources				Deferred inflows of resources			
	Differences between expected and actual experience	Changes of assumptions	Net difference between projected and actual investment earnings on pension plan investments	Total deferred outflows of resources	Differences between expected and actual experience	Changes of assumptions	Total deferred inflows of resources	
Net pension liability								Total pension expense
\$ 762,070,662	10,122,496	35,865,022	3,886,007	49,873,525	288,865	56,797,033	57,085,898	48,098,248

See accompanying notes to schedule of pension amounts.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Schedules of Pension Amounts

June 30, 2017

(1) Plan Description

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

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

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

(2) Basis of Presentation

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

(3) Contributions

The contribution policy for JRS is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. For fiscal year 2017, the State's pension contribution was less than the actuarial determined amount.

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Notes to Schedules of Pension Amounts

June 30, 2017

(4) Net Pension Liability and Actuarial Information

Components of Net Pension Liability

The components of the net pension liability for JRS as of June 30, 2017 are as follows:

Total pension liability	\$	937,395,995
Plan fiduciary net position		175,325,333
Net pension liability	\$	762,070,662
Plan fiduciary net position as a percentage of the total pension liability		18.70%

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate		2.25%
Salary increases:		
Through 2025		2.00%
Thereafter		3.00%
Investment rate of return		7.00%

Pre-retirement mortality rates were based on the RP-2000 Combined Healthy Male and RP-2000 Combined Healthy Female Mortality Tables (unadjusted for males and set forward three years for females) projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB. These rates were further projected beyond the base year using the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Mortality Tables (unadjusted for males and set forward three years for females) for service retirement and beneficiaries of former members projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB. These rates were further projected beyond the base year using the plan actuary's modified MP-2014 projection scale. Disability mortality rates were based on the RP-2000 Disability Mortality Tables (set forward 2 years for males and females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

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June 30, 2017

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in JRS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

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Discount Rate

The discount rate used to measure the total pension liability was 3.83% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State contributed 40% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2023. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2023 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of Net Pension Liability

The following presents the net pension liability of JRS as of June 30, 2017, calculated using the discount rate as disclosed above as well as what JRS's net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	At 1% decrease (2.83%)	At current discount rate (3.83%)	At 1% increase (4.83%)
\$	861,952,973	762,070,662	677,006,861

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June 30, 2017

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

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2017:

	<u>Year of deferral</u>	<u>Amortization period</u>	<u>Beginning of year balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of year balance</u>
Deferred Outflows of Resources:						
Differences between expected and actual experience	2016	3.44 years	\$ 180,746	—	74,076	106,670
	2017	3.44 years	—	14,120,673	4,104,847	10,015,826
Subtotal			<u>180,746</u>	<u>14,120,673</u>	<u>4,178,923</u>	<u>10,122,496</u>
Changes of assumptions	2014	3.84 years	5,886,086	—	5,886,086	—
	2016	3.44 years	60,771,287	—	24,906,265	35,865,022
Subtotal			<u>66,657,373</u>	<u>—</u>	<u>30,792,351</u>	<u>35,865,022</u>
Differences between projected and actual investment earnings on pension plan investments	2014	5 years	(7,335,331)	—	(3,667,665)	(3,667,666)
	2015	5 years	4,859,152	—	1,619,718	3,239,434
	2016	5 years	14,234,947	—	3,558,737	10,676,210
	2016	5 years	—	(7,952,464)	(1,590,493)	(6,361,971)
Subtotal			<u>11,758,768</u>	<u>(7,952,464)</u>	<u>(79,703)</u>	<u>3,886,007</u>
Total			<u>\$ 78,596,887</u>	<u>6,168,209</u>	<u>34,891,571</u>	<u>49,873,525</u>
Deferred Inflows of Resources:						
Differences between expected and actual experience	2015	3.60 years	\$ 770,309	—	481,444	288,865
Changes of assumptions	2015	3.60 years	\$ 18,610,458	—	11,631,536	6,978,922
	2017	3.44 years	—	70,235,370	20,417,259	49,818,111
Subtotal			<u>18,610,458</u>	<u>70,235,370</u>	<u>32,048,795</u>	<u>56,797,033</u>
Total			<u>\$ 19,380,767</u>	<u>70,235,370</u>	<u>32,530,239</u>	<u>57,085,898</u>

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

Year ending June 30:		
2018	\$	1,320,438
2019		(1,733,101)
2020		(5,209,218)
2021		(1,590,492)
Total	\$	<u>(7,212,373)</u>

(6) Pension Expense

The components of total pension expense for the year ending June 30, 2017 are as follows:

Service cost	\$	37,224,230
Interest on total pension liability		30,788,977
Member contributions		(10,348,191)
Administrative expense		150,588
Expected investment return net of investment expenses		(12,078,688)
Current period recognition (amortization) of deferred inflows/outflows of resources:		
Differences between expected and actual experience		3,697,479
Changes of assumptions		(1,256,444)
Difference between projected and actual investment earnings on pension plan investments		<u>(79,703)</u>
Total pension expense	\$	<u>48,098,248</u>