

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

A DEPARTMENT OF THE STATE OF NEW JERSEY

49th COMPREHENSIVE ANNUAL FINANCIAL REPORT *For the Fiscal Year Ended June 30, 2004*

James E. McGreevey
Governor

John E. McCormac, CPA
State Treasurer

Frederick J. Beaver
Director



STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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TRENTON, NJ 08625-0295
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Programs administered by the

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

- PERS** Public Employees' Retirement System
- TPAF** Teachers' Pension and Annuity Fund
- PFRS** Police and Firemen's Retirement System
- SPRS** State Police Retirement System
- JRS** Judicial Retirement System
- ABP** Alternate Benefit Program
- POPF** Prison Officers' Pension Fund
- CPFPF** Consolidated Police and Firemen's Pension Fund
- NJSEDCP** NJ State Employees Deferred Compensation Plan
- SACT** Supplemental Annuity Collective Trust
- ACTS** Additional Contributions Tax-Sheltered Program
- CPF** Central Pension Fund
- PAF** Pension Adjustment Fund
- UCTDSE** Unemployment Compensation and Temporary Disability for State Employees
- SHBP** State Health Benefits Program
- PDP** Prescription Drug Plan
- SEDP** State Employee Dental Program
- Tax\$ave** Premium Option Plan, Unreimbursed Medical Expense Plan Flexible Account Plan, and Dependent Care Spending Account Plan
- Commuter Tax\$ave** State Employees Commuter Tax Savings Program
- LTC** State Employees Long Term Care Insurance Plan

INDEPENDENT AUDITOR

KPMG LLP

New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

ACTUARIAL REPORTS

MELLON HUMAN RESOURCES AND INVESTOR SOLUTIONS

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Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New Jersey Division of Pensions & Benefits

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director





James E. McGreevey
Governor



John E. McCormac, CPA
State Treasurer



Frederick J. Beaver
*Director, Division of
Pensions and Benefits*



State of New Jersey
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Division of Pensions and Benefits
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PO Box 295
Trenton, NJ 08625-0295

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50 West State Street
Trenton, New Jersey

Letter of Transmittal

December 2004

To the Honorable

James E. McGreevey, Governor
John E. McCormac, CPA, State Treasurer
Members of the State Legislature
Members of the Boards of Trustees

On behalf of the Division of Pensions and Benefits, I am pleased to submit the 49th Comprehensive Annual Financial Report (CAFR) of the New Jersey state-administered retirement systems and related benefit programs for the fiscal year ended June 30, 2004. The management of the Division of Pensions and Benefits (the Division) is responsible for the accuracy of the data and the completeness and fairness of the presentation. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner that fairly presents the financial position and results of the Division's operations.

STRUCTURE OF THE CAFR

This comprehensive annual financial report is divided into the following five sections:

- The Introductory Section, which contains this letter of transmittal, the organization of the Division and Boards of Trustees, an overview of legislation enacted during the year covered by the CAFR, and general information regarding the operations of the Division.
- The Financial Section, which contains the report of the Independent Auditors and the financial statements, schedules and supplementary financial information regarding funds administered by the Division.
- The Investment Section, which contains information pertaining to the management of the investment of the Pension Trust Funds.
- The Actuarial Section, which contains the funds' Actuary Certification letters and information regarding the actuarial



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assumptions and methods used to determine the contribution requirements of the Pension Trust Funds.

- The Statistical Section, which contains general statistical information regarding the programs administered by the Division.

THE REPORTING ENTITY

The Division was established in 1955 as the Division of Pensions to provide all administration of the state pension funds except investment. The Division changed its name to the Division of Pensions and Benefits in 1992 to more accurately reflect its roles and responsibilities beyond the realm of pensions. Currently, the Division administers the second largest non-federal public benefits program in the nation, consisting of nine separate retirement systems, three supplemental retirement savings programs, a health benefits program for employees, retirees, and family members, and several other employee benefits programs. Over 745,000 members enjoy the benefits of the various pension systems administered by the Division and over 802,000 lives are covered in the State Health Benefits Program (SHBP). In addition to the State, 1,702 local public employers participate in the retirement systems and 981 local public employers participate in the SHBP.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance and Accounting Organization (GFAO) recognized the Division's CAFR of last year for Excellence in Financial Reporting. A copy of the Certificate of Achievement is included in the CAFR.

MAJOR INITIATIVES

Changes to Pension Systems - There were very few changes made to the pension systems in fiscal year '04 and they were relatively minor. Legislation was enacted to permit surviving spouses of members of the Police and Firemen's Retirement System and State Police Retirement System receiving accidental death benefits, to remarry and continue receiving the benefit. In addition, a new law provides for enrollment in Public Employees' Retirement System of eligible employees of any bi-state or multi-state agency in which New Jersey is a participant.

Domestic Partnership Act - Chapter 246, P.L. 2003, the Domestic Partnership Act (DPA), became effective on July 10, 2004. This legislation establishes the rights and responsibilities of domestic partners in the State of New Jersey and extends certain health and pension benefits to same-sex domestic partners of State employees. The law allows all local employers to adopt resolutions extending the domestic partner pension benefits to its employees and allows employers participating in the State Health Benefits Program (SHBP) to adopt resolutions extending health benefits coverage to domestic partners.

Local Early Retirement Incentive Program - The Local early retirement incentive program (ERI) enacted late in fiscal year '03, continued throughout fiscal year '04. Over 1,500 members from 133 participating employers took the incentive offer with 200 employees being extended.

FINANCIAL INFORMATION

The Financial reports of the Governmental Funds, Proprietary Funds, and the Fiduciary Funds of the Division have been prepared in conformity with generally accepted accounting principals as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. The specific accounting policies can be found in the Notes to



LETTER OF TRANSMITTAL

the Financial Statements found in the Financial Section.

- The Governmental Funds include the three separate State programs for Health Benefits, Prescription Drug, and Dental Expense.
- The Proprietary Funds include the two separate Local Group programs for Health Benefits and Prescription Drug.
- The Fiduciary Funds include eleven separate pension funds and two agency funds, the Alternate Benefit Program Fund and the Pension Adjustment Fund.

A summary of the condition of the funds administered by the Division of Pensions and Benefits is located in the "Management Discussion and Analysis" that begins on page 36 of the CAFR.

Management is responsible for establishing and maintaining the accounting systems complete with internal controls so that the data presented is complete and fairly presents the financial position of the Division as of June 30, 2004. KPMG LLP independently audited the funds.

INVESTMENTS

The Division of Investment has the responsibility for investing the assets of the programs administered by the Division. This is done under the jurisdiction of the State Investment Council. Investments are guided by the "prudent person rule". During FY '04, investment returns on pension funds were 14.1 percent. When combined with the returns for previous years, the annualized returns over the past three, five, and ten-year periods were +2.4 percent, +1.5 percent, and +10.0 percent, respectively.

FUNDING

Funding is the keystone of a good benefits system. A fully funded system that has assets sufficient to meet the disability and retirement benefits schedules of all its members is one that instills confidence and trust. I'm pleased to report that our benefits systems are in excellent financial condition despite the disappointing market returns over the past several years. The liabilities of the actuarially based pension systems are 93.7 percent funded. Members and retirees can feel confident that the State-administered retirement systems in New Jersey will meet their obligations now and in the future.

PROFESSIONAL SERVICES

The Division contracts with several professional organizations for advice and assistance in administering the programs for which it is responsible. The list of these organizations is found on page 90 of the CAFR. The Office of the Attorney General provides all legal services required by the Division of Pensions and Benefits and the retirement system Boards of Trustees.

ACKNOWLEDGMENTS

The preparation of the CAFR required the combined efforts of many employees from different operational units within the Division. The CAFR is intended to provide extensive and reliable information to facilitate informed decisions, determine compliance with legal requirements, and determine responsible stewardship for the assets contributed by the systems' members, participating employers, and the taxpayers of the State.

I would like to take this opportunity to express my gratitude to the Governor, the Legislature, the Treasurer,



LETTER OF TRANSMITTAL

the Boards of Trustees, the individuals providing professional services, participating employer benefits administrators and to the outstanding employees of the Division for all their efforts and support. Such concerted effort has resulted in making New Jersey's public benefits system one of the largest and best administered in the nation.

Respectfully submitted,



Frederick J. Beaver
Director



All in a year's work. . .

- There are **532,465 ACTIVE MEMBERS** in the combined retirement systems.
- There are **1,704 PARTICIPATING EMPLOYERS** in the combined retirement systems; 9 new employers began participating this year.
- There are **461,698 INDIVIDUAL RETIREMENT SYSTEM MEMBER ACCOUNTS** being maintained; **56,515 MEMBER ACCOUNTS** were audited internally.
- A total of **212,019 RETIREES AND BENEFICIARIES RECEIVED MONTHLY PENSIONS** totaling in excess of **\$5.3 BILLION ANNUALLY**.
- **OVER 6,909 BENEFICIARY CLAIMS** were processed. Premiums in excess of \$123.5 million were paid to the insurance carrier on behalf of active and retired members.
- Over **1.9 MILLION TELEPHONE CALLS** were received in Client Services. Counselors handled over 307,000 calls; over 1.17 million calls were handled by our automated telephone systems.
- **14,117 PERSONAL INTERVIEWS** were conducted by pensions counselors.
- **496 RETIREMENT SEMINARS** were conducted for over 16,159 members.
- **15,359 SERVICE PURCHASE REQUESTS** were processed.
- Over **64,083 NEW ENROLLMENTS OR TRANSFERS** were processed in our retirement systems.
- **There were 7,893 WITHDRAWALS** from the retirement systems.
- **12,045 MEMBERS RETIRED.**
- Over **118,406 PENSION LOANS** totalling **\$415,772,242** were processed.
- State and local membership in the State Health Benefits Program was **359,167 MEMBERS** with **802,158 LIVES COVERED**.
- A total of over **\$2.3 BILLION IN PREMIUMS** was collected from State and local State Health Benefits Program employers. 981 local employers elected to participate in the SHBP this year.

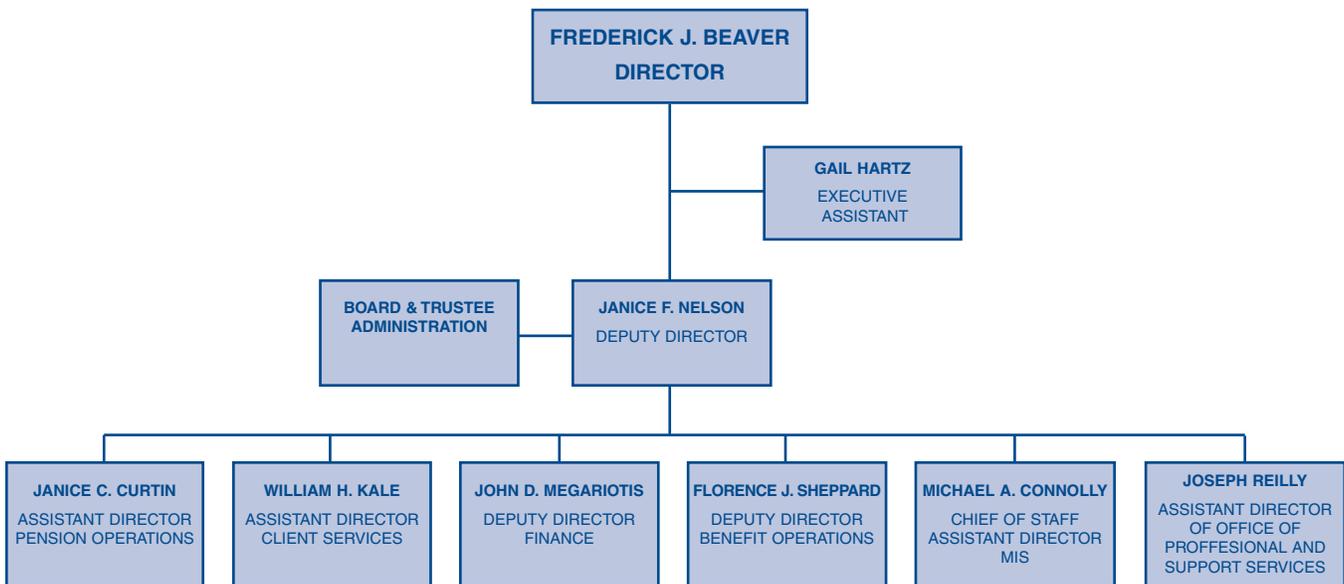
ORGANIZATION



EXECUTIVE MANAGEMENT TEAM

Seated (left to right): Janice C. Curtin, Assistant Director, Pension Operations
 Florence J. Sheppard, Deputy Director, Benefit Operations
 Janice F. Nelson, Deputy Director, Division of Pensions and Benefits
 Gail Hartz, Executive Assistant

Standing (left to right): Michael A. Connolly, Chief of Staff and Assistant Director, MIS
 John D. Megariotis, Deputy Director, Finance
 Frederick J. Beaver, Director, Division of Pensions and Benefits
 Joseph Reilly, Assistant Director, Professional Services
 William H. Kale, Assistant Director, Client Services



ORGANIZATION



CHIEFS AND MANAGERS

Seated (left to right): Timothy Rooney - Information Technology, David Pointer - Retirements, Frank Corliss - MIS, Joseph Zisa - Defined Benefit and Contribution Plans, Christine Servis - Health Benefits

Standing (left to right): Michael Weik - Administrative Services, Rita Partyka - Client Services, Leonard Leto - Health Benefits Policy and Planning, Janice Vasil - Operations, Sandra Horan - Enrollments and Purchases, Mary Ellen Conway - Financial Reporting, Payments, and Collections, Wendy Jamison - Boards of Trustees, Virginia Martucci - Claims, Timothy McMullen - Budget and Compliance

DIRECTOR

The Director is responsible for the coordination of the functions of the Division, the development of the Division budget and communication with other branches of State government, local government and the public. The Director serves as the Secretary to the Supplemental Annuity Collective Trust Council, the State Health Benefits Commission and the State House Commission in its capacity as the Board of Trustees for the Judicial Retirement System. The Director is also responsible for legal and legislative matters and Board of Trustees administration. In addition, the Treasurer has delegated the responsibility of maintaining the Federal-State Agreement for Social Security to the Director of the Division of Pensions and Benefits.

The Division of Pensions and Benefits falls under the jurisdiction of the New Jersey Department of the Treasury. The Director of the Division of Pensions and Benefits reports directly to the State Treasurer.

OFFICE OF OPERATIONS

The work of this office, overseen by an Assistant

Director, is divided among three bureaus: Enrollment and Purchase, Claims, and Retirement.

The Enrollment and Purchase Bureau processes all enrollments, transfers and purchases of service credit for all of the State retirement systems. The Claims Bureau processes all death claims, withdrawals, and loan requests. In addition, this bureau oversees beneficiary designations filed by active and retired members and issues group life insurance policies, riders and special endorsements. The Retirement Bureau prepares retirement estimates and processes retirement applications for all of the State retirement systems.

OFFICE OF HEALTH BENEFITS

This office, overseen by an Assistant Director, consists of two elements: the Health Benefits Bureau and the Office of Policy and Planning. The Health Benefits Bureau processes all enrollments, changes and terminations for active and retired members of the State Health Benefits Program. In addition, this bureau is responsible for the administration of benefits under the federal COBRA law, and enrollments, changes and ter-



ORGANIZATION

minations for members of the Prescription Drug Plan and State Employee Dental Program. The Office of Policy and Planning analyzes and makes recommendations concerning current and proposed health benefits programs to provide the highest quality programs at the least possible cost. It manages contract renewals and requests for proposals. Policy and Planning is responsible for health benefit program review and development. This office also provides administrative support to the State Health Benefits Commission.

OFFICE OF FINANCIAL SERVICES

The work of this office, overseen by a Deputy Director, is divided among three bureaus: Financial Reporting, Payment and Collections; Budget and Compliance; and Defined Benefit and Contribution Plans Reporting.

The Office of Financial Services is charged with the custodianship of pension and health benefits assets. These assets are in excess of \$71 billion and include over 782,000 individual member accounts. These combined systems place the Division of Pensions and Benefits second among the top public pensions and benefits administrators in the nation. This office is responsible for the accounting functions necessary for the successful operations of the various pension funds, health benefits and agency funds, as well as the administration of the Pension Adjustment Program, the Supplemental Annuity Collective Trust, and Deferred Compensation Plan.

OFFICE OF CLIENT SERVICES

This office, overseen by an Assistant Director, consists of three units: Telecommunications; Counseling, Education and Support; and Publications. Client Services disseminates pension, life insurance and health benefits information to employees, retirees and employers covered by the various New Jersey State-administered retirement systems and benefit programs.

The Telecommunications Unit counsels employees, retirees and employers via the telephone by providing information about pension, life insurance, health benefits and general procedures. The Counseling, Education, and Support Unit responds to written requests for information, conducts personal interviews with employees and retirees who visit the Division of

Pensions and Benefits, and provides seminars, employer group meetings, employer instructions and various presentations concerning pension, life insurance and health benefits to employees, employers and retirees. This unit is also responsible for providing receptionist services for the entire Division. The Publications Unit exercises overall responsibility for creating, editing, updating and printing of written materials disseminated by the Division, including manuals, reports, forms, benefit statements and booklets. This unit also manages the Division's internet site.

OFFICE OF MANAGEMENT INFORMATION AND SUPPORT SERVICES

The work of this office, overseen by an Assistant Director, is responsible for the development and maintenance of all processing and management information systems for the Division. This office also has the responsibility for the training, usage and maintenance of all automated office and telephone equipment.

This office consists of five sections: Image Processing and Records Management, Data Entry, Computer Scheduling and Production Control, Systems Development, and Support Services.

The Support Services section has the responsibility for the building and equipment, mail room, warehouse operations and forms inventory.

OFFICE OF PROFESSIONAL SERVICES

The Office of Professional Services is located within the Director's Office and operates under the direction of an Assistant Director. It is responsible for providing a structured and consistent planning function for the Division, analyzing proposed legislation for its fiscal and policy impacts, maintaining the regulatory documentation for Division programs, managing the development of contracts with external service providers, and conducting research in support of Division activities.

OFFICE OF BOARD OF TRUSTEES ADMINISTRATION

The Office of Board of Trustees Administration, under the direction of the Deputy Director, provides administrative services for the various defined benefit plans Boards and Commissions.



ORGANIZATION

The Boards and Commissions have the general responsibility for the proper operation of their respective employee benefits program. The Boards adopt rules in compliance with statute and advice of the Attorney General. The Boards may grant hearings in disputes concerning issues of law or fact. Hearings are held by the Office of Administrative Law.

The Boards maintain a record of all proceedings and hold regular meetings and special meetings when necessary.

ACTUARIAL ADVISORS

The actuaries establish actuarial tables for the operation of the retirement systems, determine the annual appropriation required of participating employers and conduct annual examinations of the systems' actuarial position.

Contracts for actuarial services for the retirement systems are awarded at specified intervals through the regulations governing the procurement of goods and services for the State of New Jersey and its constituent departments and agencies.

LEGAL ADVISOR

The State Attorney General is the legal advisor for all pension funds and other employee benefit programs.

MEDICAL ADVISORS

All pension funds are served by a medical board consisting of three physicians who review claims for disability as submitted by the Disability Review Section of the Retirement Bureau for the Division of Pensions and Benefits.



ORGANIZATION — BOARDS OF TRUSTEES



PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Seated: Suzanna Buriani-DeSantis
(l to r) Martin M. McElroy
George B. Babula, *Chairperson*
Kathleen Coates, *Board Secretary*

Standing: Frederick J. Beaver, *Treasurer's Representative*
(l to r) Edward Thomson, III
James Brey
Roderick Lewis
Leon Flanagan
Susanne Culliton, *Deputy Attorney General*
Ronald Winthers

Absent: Jackie Bussanich, *Support Staff*



TEACHERS' PENSION AND ANNUITY FUND

Seated: Marie Flynn
(l to r) John Keeler
Harry Baldwin, *Chairperson*
Grace Haislip

Standing: James Clemente
(l to r) Jackie Bussanich, *Support Staff*
Frederick J. Beaver, *Treasurer's Representative*
Susanne Culliton, *Deputy Attorney General*
Kathleen Coates, *Board Secretary*
Deborah Rivosa



POLICE AND FIREMEN'S RETIREMENT SYSTEM

Seated: Alan C. Levine
(l to r) Mark Kandrac, *Chairperson*
John Sandella
Frank Casey

Standing: John Sierchio
(l to r) Jackie Bussanich, *Support Staff*
Dennis Connelly
Nichole Fava
Frank Leake
Wendy Jamison, *Board Secretary*
Vincent Foti
Susanne Culliton, *Deputy Attorney General*
Frederick J. Beaver, *Treasurer's Representative*

Absent: Joseph Boucher



ORGANIZATION — BOARDS OF TRUSTEES



STATE POLICE RETIREMENT SYSTEM

- Standing:* Wendy Jamison, *Board Secretary*
(l to r) Peter Gorman, *Treasurer's Representative*
Susanne Culliton, *Deputy Attorney General*
Jackie Bussanich, *Support Staff*
- Seated:* John M. Mitch
(l to r) Captain Frederick N. Bucci, *Chairperson*
James Grant
- Absent:* John K. Sayers

CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

Spencer H. Smith, Jr., *Chairperson*
Louis J. Risacher
George A. Castro, II
Thomas Tighe
William H. Schlueter
William A. Nagy, Jr.
Mary Sibley, *Treasurer's Representative*
Wendy Jamison, *Board Secretary*

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST

John E. McCormac, *State Treasurer*
Holly C. Bakke, *Commissioner of Banking & Insurance*
Charlene Holzbaur, *Director & State Comptroller, Office of Management and Budget,*
Department of the Treasury

STATE HEALTH BENEFITS COMMISSION

John E. McCormac, *State Treasurer*
Holly C. Bakke, *Commissioner of Banking & Insurance*
Ida L. Castro, *Commissioner of Personnel*

DEFERRED COMPENSATION BOARD

John E. McCormac, *State Treasurer*
Holly C. Bakke, *Commissioner of Banking & Insurance*
Charlene Holzbaur, *Director & State Comptroller,*
Office of Management & Budget, Department of the Treasury



SIGNIFICANT LEGISLATION

Chapter 42, P.L. 2002

This law allows units of local governments (municipalities, counties, authorities, school boards, etc.) to issue refunding bonds to retire their unfunded accrued liability owed to the State's various pension systems created through the granting of early retirement benefits to their employees. Refunding bonds may be issued to retire the pension liabilities for a local governmental unit's participation in an early retirement incentive program established pursuant to P.L. 1991, c. 229, P.L. 1991, c. 230, P.L. 1991, c. 231, P.L. 1993, c. 138, P.L. 1993, c. 181, P.L. 1993, c. 163 and P.L. 1993, c. 99. The law would also allow units of local governments to use refunding bonds when they offer early retirement incentive programs for employees affected by consolidation agreements authorized by Chapter 59, P.L. 1999. The adoption and issuance procedures would be the same as procedures that exist under current law for the issuance of refunding bonds by the local unit.

This law also permits county improvement authorities and the Economic Development Authority to pool early retirement benefit refunding bonds from local units in order to obtain better interest rates and terms.

This law was effective July 12, 2002.

Chapter 54, P.L. 2002

This law allows members of the Judicial Retirement System (JRS) to elect to receive a reduced retirement allowance in order to provide a benefit to a named beneficiary. The five optional settlements in this law are the same as those available to members of the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund.

The law also provides that within six months of its effective date, a retired JRS member may elect an optional settlement which will be applicable to the member's retirement allowance payable after the election is made.

These options, which allow JRS members to reduce their retirement allowance to provide benefits to a named beneficiary, are in addition to the JRS survivor benefits currently provided by law.

This law was effective September 2, 2002.

Chapter 109, P.L. 2002

This law authorizes the Hudson County Pension Fund to adjust annually, by resolution of its board of chosen freeholders, the pension benefits paid to retired county employees or their survivors, in order to reflect annual increases in the cost of living. The cost of living adjustment in the pension benefits paid shall be 60% of the change in the index.

In addition to notifying the secretary of the Hudson County pension commission annually of the percentage of adjustment for the applicable year, the Division of Pensions and Benefits shall promulgate such rules and regulations as deemed necessary for the effective operation of this act. The State Treasurer shall include a report of the operation of this act in the annual report submitted to the Governor and the Legislature regarding all of the operations of the Division of Pensions and Benefits.

This law was effective December 4, 2002.

Chapter 134, P.L. 2002

This law revises the statute authorizing municipalities to pay pensions to the widow and minor children of local volunteer personnel who die in the course of volunteer service.

Under this law:

1. The class of personnel eligible for the pension, which presently includes volunteer firefighters, first aid workers, and rescue squad workers, is expanded to include emergency medical technicians;
2. The class of survivors eligible to receive the pension is expanded to include widowers as well as widows, children if the widow remarries and parents if there is no widow or children.
3. The pension will be paid by the State for volunteers dying on or after January 1, 2000. The municipality is to determine the survivors' eligibility for the benefit, and must file a resolution with the State Treasurer within days 10 after adoption. The pension will commence in the first calendar year after the year of death or the year following this law's enactment, whichever is later.



SIGNIFICANT LEGISLATION

4. The amount of the annual pension payable under this law is increased from \$5,000 per year to \$15,000 per year for unmarried widows, widowers and minor children. An annual pension of \$10,000 shall be payable to the minor children if the widow or widower remarries. A \$5,000 annual pension shall be payable to the parents if there is no surviving spouse or minor children.

This law was effective January 9, 2003, and is retroactive to January 1, 2000.

Chapter 3, P.L. 2003

This law amends the statutes that allow a county, municipality, or contracting unit, as defined in the "Local Public Contracts Law" P.L. 1971 c. 198 (C. 40A:11-1 et seq.) that participates in the State Health Benefits Program or another group health benefits plan to allow an employee who is eligible for other health care coverage to waive coverage to which the employee is entitled as an employee of the county, municipality, or contracting unit.

The new law amends these statutes in two ways:

1. The ability to waiver is no longer limited to employees who have other coverage as a dependent of a spouse. It extends the waiver of coverage provisions to apply to any situation in which an employee is eligible for other health care coverage, and
2. The waiver provisions are extended to county colleges in the State Health Benefits Program or another group health benefits plan.

This law was effective January 27, 2003.

Chapter 27, P.L. 2003

This law requires:

- an employer that provides a health benefits plan

to its employees or their dependents to provide 30 days' prior written notice to its employees if the plan is terminated, and

- a health insurer that increases premium rates upon the renewal of a health benefits plan to provide 60 days' prior written notice of the amount of a proposed increase to the employer that purchased the plans.

The provisions of this law apply to health benefits plans impacted by P.L. 1997, c. 192, otherwise known as the "Health Care Quality Act" (N.J.S.A. 26:2S-1 et seq.).

Although there is a question whether this law impacts the SHBP, the SHBP already meets or exceeds the notification provisions of this law.

This law was effective May 9, 2003.

Chapter 71, P.L. 2003

This law provides for the addition of two members to the membership of the State Health Benefits Commission. The current members are the State Treasurer who serves as the Chairman, the Commissioner of Banking and Insurance and the Commissioner of Personnel.

One of the additional members will be a State employees' representative chosen by the Public Employees' Committee of the AFL-CIO; the other will be a representative chosen by the New Jersey Education Association.

This law was effective May 5, 2003.



SCOPE OF OPERATIONS

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

This system was established by Chapter 84, P.L. 1954, after the repeal of the law creating the former State Employees' Retirement System. The retirement benefits of this system are coordinated, but not integrated with, Social Security. This system is maintained on an actuarial reserve basis. Under the terms of Chapter 71, P.L. 1966, most public employees in New Jersey not required to become members of another contributory retirement program are required to enroll.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 15A. Rules governing the operation and administration of the fund may be found in Title 17, Chapter 2 of the New Jersey Administrative Code.

TEACHERS' PENSION AND ANNUITY FUND (TPAF)

This fund was reorganized by Chapter 37, P.L. 1955. The retirement benefits of this system are coordinated, but not integrated with, Social Security. This fund is maintained on an actuarial reserve basis. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

Statutes can be found in the New Jersey Statutes Annotated, Title 18A, Chapter 66. Rules governing the operation and administration of the system may be found in Title 17, Chapter 3 of the New Jersey Administrative Code.

POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)

This system was established by Chapter 255, P.L. 1944. All policemen and firemen, appointed after June 1944, in municipalities where local police and firemen pension funds existed or where this system was adopted by referendum or resolution are required to become members of this system. Certain State and county employees are also covered. Employer obligations are paid by the local employers and the State. This system is maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 16A. Rules governing the operation and administration of the system may be

found in Title 17, Chapter 4 of the New Jersey Administrative Code.

STATE POLICE RETIREMENT SYSTEM (SPRS)

This system was created by Chapter 89, P.L. 1965 as a successor to the State Police Retirement and Benevolent Fund. All uniformed officers and troopers of the Division of State Police in the New Jersey Department of Law and Public Safety are required to enroll. This system is maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 53, Chapter 5A. Rules governing the operation and administration of the system may be found in Title 17, Chapter 5 of the New Jersey Administrative Code.

JUDICIAL RETIREMENT SYSTEM (JRS)

This system was established by Chapter 140, P.L. 1973 after the repeal of the laws providing pension benefits to members of the State judiciary and their eligible survivors. All members of the State judiciary are required to enroll. This system is maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 6A. Rules governing the operation and administration of the system may be found in Title 17, Chapter 10 of the New Jersey Administrative Code.

ALTERNATE BENEFIT PROGRAM (ABP)

This program was established by several pieces of legislation between 1965 and 1968 for full-time faculty members of public institutions of higher education. It was later expanded to include certain administrative and professional titles.

Chapter 385, P.L. 1993 increased the number of investment carriers to six. The investment carriers underwriting annuities are as follows: ING Aetna Financial Services, The Travelers Insurance Company (represented by CitiStreet), Lincoln Financial Group, Metropolitan Life Insurance Co., Teachers' Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) and Variable Annuity Life Insurance Co. (VALIC). The ABP is a "defined contribution" plan as



SCOPE OF OPERATIONS

distinguished from “defined benefits” payable by the other State retirement systems. Immediate vesting after the first year’s participation offers the mobility of pension credit among the private and public institutions of higher education in the United States and Canada. Group life insurance and long-term disability insurance are underwritten by the Prudential Insurance Company of America, Inc.

Statutes can be found in the New Jersey Statutes Annotated, Title 18A, Chapter 66. Rules governing the operation and administration of this program may be found in Title 17, Chapter 7 of the New Jersey Administrative Code.

PRISON OFFICERS’ PENSION FUND (POPF)

This fund was established under Chapter 220, P.L. 1941. It was closed to new employees as of January 1960. New employees are enrolled in the Police and Firemen’s Retirement System. This system is not maintained on an actuarial reserve basis.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 7.

CONSOLIDATED POLICE AND FIREMEN’S PENSION FUND (CPFPF)

This fund was established by Chapter 358, P.L. 1952, to place 212 local police and firemen pension funds on an actuarial reserve basis. The membership consists of police and firemen appointed prior to July 1, 1944. The liabilities of these local funds were shared: two-thirds by the participating municipalities and one-third by the State.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 16. Rules governing the operation and administration of this fund may be found in Title 17, Chapter 6 of the New Jersey Administrative Code.

NEW JERSEY STATE EMPLOYEES DEFERRED COMPENSATION PLAN (NJSEDCP)

This plan was established by Chapter 39, P.L. 1978 and is available to any State employee who is a member of a State-administered retirement system. This plan is a voluntary investment program that provides retirement income separate from and in addition to the basic pension benefit.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A.

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST (SACT)

This trust was established by Chapter 123, P.L. 1963. This program includes active members of several State-administered retirement systems. Members make voluntary additional contributions through their pension funds to purchase variable retirement annuities in order to supplement the benefits provided by their basic system. Some employers agree to purchase tax-sheltered annuities for the same purpose for certain eligible employees.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A. Rules governing the operation and administration of the trust may be found in Title 17, Chapter 8 of the New Jersey Administrative Code.

ADDITIONAL CONTRIBUTIONS TAX-SHELTERED PROGRAM (ACTS)

The Additional Contributions Tax-Sheltered Program (ACTS) was established in 1996. ACTS is a tax-sheltered, supplemental, retirement program pursuant to Section 403(b) of the federal Internal Revenue Code offered to employees of institutions of higher education, the Commission on Higher Education, the Department of Education, and the Office of Student Assistance. The eligible employees are able to obtain tax-deferred annuities with a variety of investment carriers through a salary reduction agreement. The annuities are available from the same investment carriers who service the Alternate Benefit Program.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A, section 113.

CENTRAL PENSION FUND (CPF)

This fund consists of the administration of a series of noncontributory pension acts. No reserves are established for the payment of retirement benefits. These benefits are administered by the Division in accordance with the governing statute and the rules and regulations of the State House Commission.



SCOPE OF OPERATIONS

PENSION ADJUSTMENT FUND (PAF)

This fund was established pursuant to Chapter 143, P.L. 1958 and covers all eligible pensions of State-administered retirement systems. It was altered by Chapter 169, P.L. 1969, which provided a cost-of-living adjustment and by Chapter 139, P.L. 1971 which extended its provisions to eligible survivors.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 18A. Rules governing the operation and administration of the fund may be found in Title 17, Chapter 1 of the New Jersey Administrative Code.

UNEMPLOYMENT COMPENSATION AND TEMPORARY DISABILITY INSURANCE FOR STATE EMPLOYEES (UC/TDI)

The Division of Pensions and Benefits coordinates the work related to the payment of the charges involving unemployment compensation and temporary disability insurance benefits for State employees eligible for coverage under federal law. It is responsible for contracting with a service agency to review all questionable claims for unemployment compensation.

STATE HEALTH BENEFITS PROGRAM (SHBP)

The program provides medical coverage to employees, retirees, and their dependents. It includes a basic indemnity type plan (Traditional Plan), a point-of-service plan (NJ PLUS), and several HMOs. Chapter 125, P.L. 1964 extended the program to include employees of local government.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Article 17.25 et. seq. Rules governing the operation and administration of the program may be found in Title 17, Chapter 9 of the New Jersey Administrative Code.

PRESCRIPTION DRUG PLAN (PDP)

This plan was initiated by the State effective December 1, 1974. The passage of Chapter 41, P.L. 1976 extended coverage to all eligible State employees. The State Health Benefits Commission offered the plan to local employers on July 1, 1993. Employees and their eligible dependents are covered by the plan in the same manner as the State Health Benefits Program. The Division of Pensions and Benefits became responsible

for its administration in November 1976.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Section 17.29(F). Rules governing the operation and administration of the program are found in Title 17, Chapter 9, of the New Jersey Administrative Code.

STATE EMPLOYEE DENTAL PROGRAM (SEDP)

The program was initially established February 1, 1978 and further expanded in June 1984. All eligible State employees may enroll for themselves and their eligible dependents by paying the premium calculated to meet half of the cost of the plan. The New Jersey State Dental Expense Benefits Program is a traditional indemnity plan. The State of New Jersey Dental Plan Organization Program consists of ten separate Dental Plan Organizations.

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Section 17.29(F). Rules governing the operation and administration of the program may be found in Title 17, Chapter 9, of the New Jersey Administrative Code.

TAX\$AVE

This benefit program for State employees, authorized under Section 125 of the Internal Revenue Code, was initially established in July 1996. The benefit consists of three components: the Premium Option Plan that allows employees to use pre-tax dollars deducted from their pay for health or dental benefit premiums they may be required to pay for coverage; the Unreimbursed Medical Expense Plan Flexible Spending Account Plan that allows employees to use up to \$2,000 pre-tax dollars annually deducted from their pay for medical expenses not reimbursed by their medical or dental insurance; and the Dependent Care Spending Account Plan that allows employees to use up to \$5,000 pre-tax dollars annually deducted from their pay for dependent care expenses required to permit the employee and spouse to work.

Statutes can be found in New Jersey Statutes Annotated 52:14-15.1a. Rules governing the Tax\$ave can be found in Title 17, Chapter 1, Subchapter 13 of the New Jersey Administrative Code.



SCOPE OF OPERATIONS

COMMUTER TAX\$AVE

This benefit program, authorized by Chapter 162, P.L. 2001 and available under Section 132(f) of the federal Internal Revenue Code, allows eligible State employees to use before-tax dollars to pay for qualified commuter expenses. Under the program, eligible employees may execute salary reduction agreements to have up to \$100 per month (\$1,200 per year) deducted from salary to pay for mass transit commutation costs and \$195 per month (\$2,340 per year) to pay for parking at work or at park and ride sites. The program was implemented in February 2004.

Statutes can be found in New Jersey Statutes

Annotated 52:14-17.33a. Rules governing Commuter Tax\$ave can be found in Title 17, Chapter 1, Subchapter 14 of the New Jersey Administrative Code.

STATE EMPLOYEES LONG TERM CARE INSURANCE PLAN

The State Employees Long Term Care Insurance Plan is a participant-pay-all benefit available to State employees, retirees, and family members. The Prudential Insurance Company administers the insurance plan under contract with the State. The initial offering of the benefit was effective July 1, 2003.

Statutes can be found in New Jersey Statutes Annotated 52:14-15.9a and 34:11-4.4b(10).



MEMBERSHIP

ACTIVE MEMBERSHIP

RETIREMENT SYSTEM	2003	2004
Public Employees' Retirement System	307,474*	314,673*
Teachers' Pension & Annuity Fund	148,915*	151,911*
Police & Firemen's Retirement System	44,848*	45,124*
State Police Retirement System	2,792*	2,710*
Judicial Retirement System	436	432
Alternate Benefit Program	16,941	17,615
Prison Officers' Pension Fund	0	0
Consolidated Police & Firemen's Pension Fund	0	0
Central Pension Fund	NA	NA
TOTAL	521,406	532,465

**Both the 2003 and 2004 figures represent the total number of Active and Inactive accounts.*

The 2004 Inactive (noncontributing) accounts are as follows:

PERS Inactive — 49,203, TPAF Inactive — 13,677, PFRS Inactive — 1,650, SPRS Inactive — 35

RETIRED MEMBERSHIP AND BENEFICIARIES

RETIREMENT SYSTEM	2003	2004
Public Employees' Retirement System	115,427	118,114
Teachers' Pension & Annuity Fund	59,290	61,965
Police & Firemen's Retirement System	26,642	27,826
State Police Retirement System	2,080	2,204
Judicial Retirement System	399	419
Alternate Benefit Program	NA	NA
Prison Officers' Pension Fund	210	200
Consolidated Police & Firemen's Pension Fund	1,055	941
Central Pension Fund	355	350
TOTAL	205,458	212,019

**The number of retirees varies slightly from those reported in the Notes to the Financial Statements due to differences in the effective dates of said tabulations.*

PARTICIPATION IN HEALTH BENEFITS PROGRAM

HEALTH PROGRAM	2003	2004
State Health Benefits Program	350,667	358,609
Prescription Drug Plan	141,339	148,164
State Employee Dental Expense Plan	96,911	99,072



MEMBERSHIP

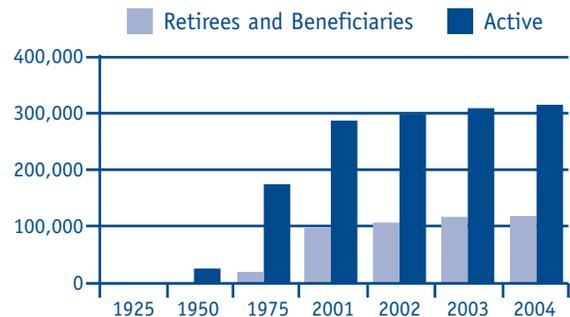
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

As of June 30, 2004, the active membership of the system totaled 314,673. There were 118,114 retirees and beneficiaries receiving annual pensions totaling \$1,506,081,057*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$97,104,220.

The system's assets totaled \$23,191,446,226 at the close of the fiscal year 2004.

**Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act*



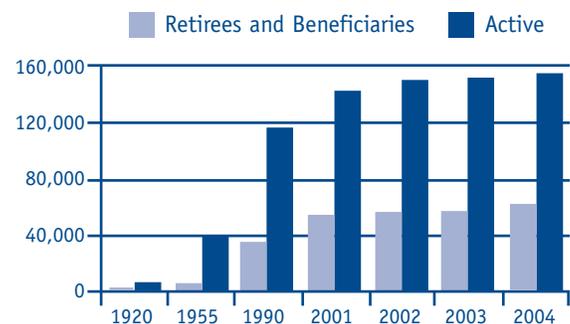
TEACHERS' PENSION AND ANNUITY FUND

As of June 30, 2004, the active membership of the fund totaled 151,911. There were 61,965 retirees and beneficiaries receiving annual pensions totaling \$1,821,694,407*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$59,806,846.

The fund's assets totaled \$28,894,103,112 at the close of the fiscal year 2004.

**Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.*



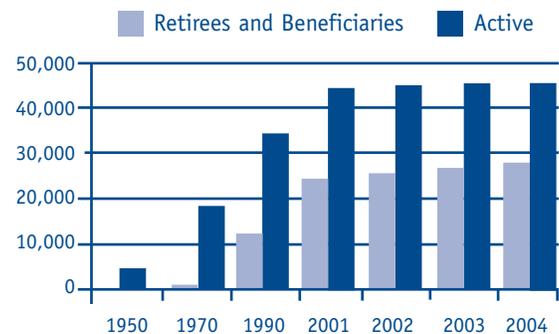
POLICE AND FIREMEN'S RETIREMENT SYSTEM

As of June 30, 2004, the active membership of the system totaled 45,124. There were 27,826 retirees and beneficiaries receiving annual pensions totaling \$956,173,745*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$30,881,935.

The system's assets totaled \$16,439,571,152 at the close of the fiscal year 2004.

**Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.*



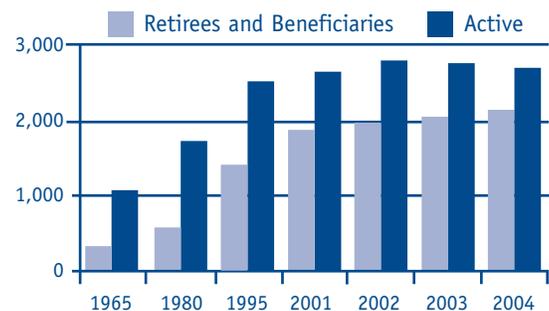
STATE POLICE RETIREMENT SYSTEM

As of June 30, 2004, the active membership of the system totaled 2,710. There were 2,204 retirees and beneficiaries receiving annual pensions totaling \$88,550,978*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$721,085.

The system's assets totaled \$1,694,769,733 at the close of the fiscal year 2004.

**Includes cost-of-living adjustments paid under the provisions of the Pension Adjustment Act.*

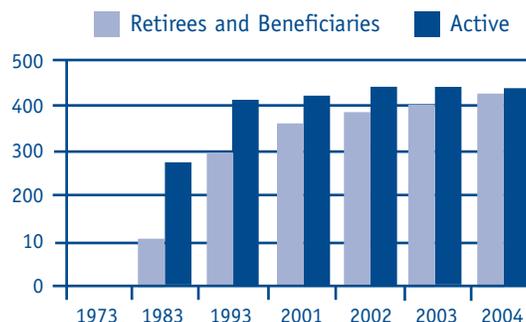


MEMBERSHIP

JUDICIAL RETIREMENT SYSTEM

As of June 30, 2004, the active membership of the system totaled 432. There were 419 retirees and beneficiaries receiving annual pensions totaling \$26,576,846.

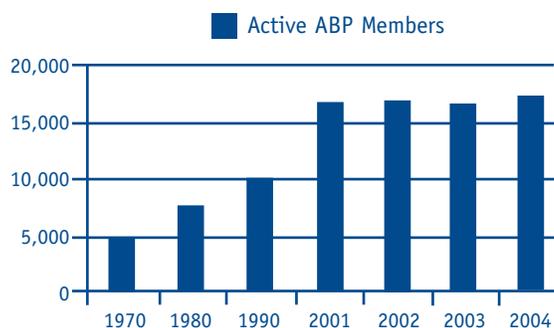
The system's assets totaled \$324,619,731 at the close of the fiscal year 2004.



ALTERNATE BENEFIT PROGRAM

As of June 30, 2004, the State paid \$106,470,516 on behalf of 17,615 participants to the carriers underwriting this program.

Beneficiaries of deceased active and retired members received \$12,938,808 in lump sum death benefits.



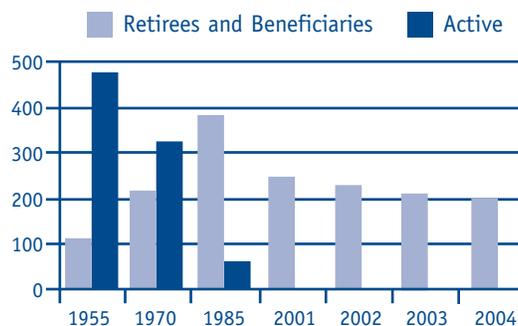
PRISON OFFICERS' PENSION FUND

The activity shown to the right is consistent with a closed pension fund.

This fund was closed to new membership in January 1960.

As of June 30, 2004, the active membership of the fund totaled zero. There were 200 retirees and beneficiaries receiving annual pensions totaling \$2,750,556.

The fund's assets totaled \$16,105,439 at the close of the fiscal year 2004.

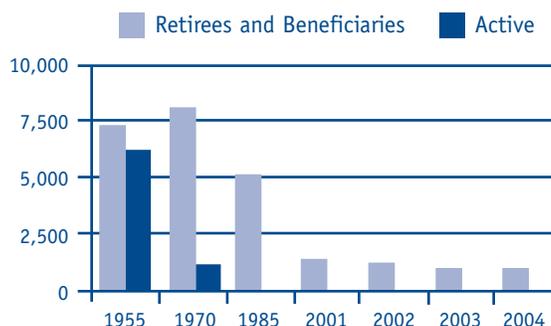


CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

The activity shown to the right is consistent with a closed pension fund.

As of June 30, 2004, the active membership of the fund totaled zero. There were 941 retirees and beneficiaries receiving annual pensions totaling \$16,829,838.

The fund's assets totaled \$16,723,261 at the close of the fiscal year 2004.



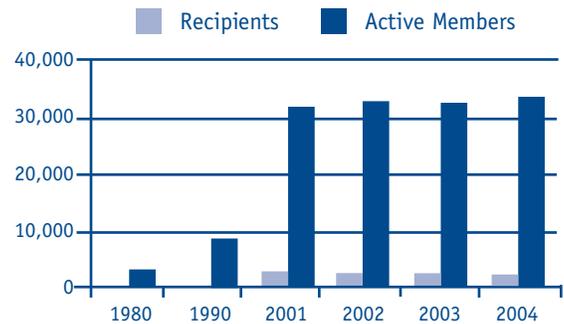
MEMBERSHIP

NJ STATE EMPLOYEES DEFERRED COMPENSATION PLAN

Fiscal year 2004 continues to show a marked increase in active participation due to membership campaigns conducted by the Division of Pensions and Benefits.

As of June 30, 2004, the membership of the New Jersey State Employees Deferred Compensation Plan totaled 33,545. There were 2,467 members receiving monthly installment payments.

The plan's net assets (participants' balances) were \$1,353,276,130 at the close of the fiscal year 2004.

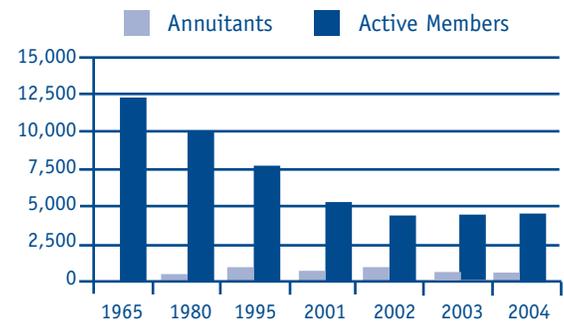


SUPPLEMENTAL ANNUITY COLLECTIVE TRUST

As of June 30, 2004, the active membership of the trust totaled 4,098. The unit value was \$54.9882, an increase of \$7.0559 from the June 30, 2003 value of \$47.9323.

There were 645 annuitants.

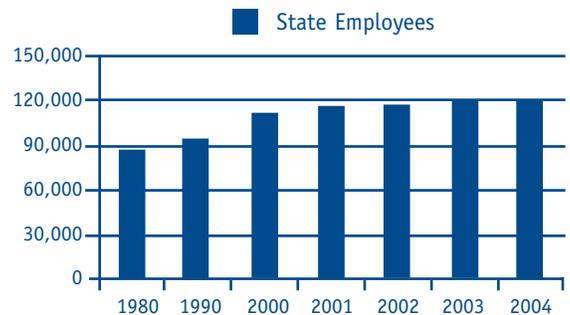
The trust's assets totaled \$146,587,112 at the close of the fiscal year 2004.



UNEMPLOYMENT COMPENSATION AND TEMPORARY DISABILITY INSURANCE

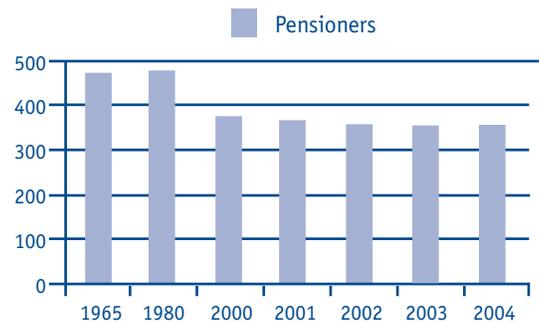
As of June 30, 2004, the Unemployment Compensation Program for State employees covered as many as 122,017 persons, and the Division remitted \$9,000,992 on behalf of the State. There were 4,290 requests for unemployment benefits filed, and \$13,036,755 was paid to the employees found eligible.

During the same period, the Temporary Disability Insurance Program covered 126,621 employees, and the Division remitted \$22,260,314 on behalf of the State. Claims paid totaled \$26,116,256.



CENTRAL PENSION FUND

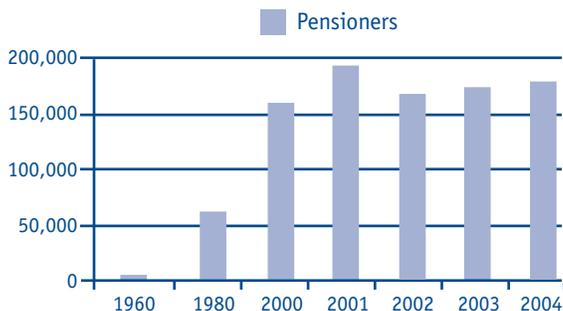
As of June 30, 2004, there were 350 beneficiaries receiving annual pensions totaling \$435,528.



MEMBERSHIP

PENSION ADJUSTMENT EXPENSE

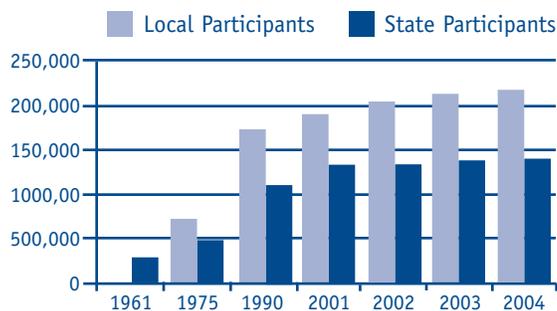
There were 182,992 pensioners who were paid \$525,744,116 during fiscal year 2004.



STATE HEALTH BENEFITS PROGRAM

As of June 30, 2004, there were 358,609 covered participants (active and retired) consisting of 142,342 State participants and 216,267 participants of 981 local participating employers.

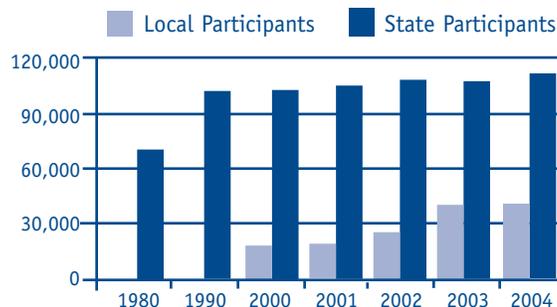
The State and state employee contributions were \$966,797,040 while payment made by local employers and employees was \$1,684,721,256.



PRESCRIPTION DRUG PLAN

The Prescription Drug Plan covered as many as 109,831 State employees and 38,333 local employees during fiscal year 2004.

The State's contribution was \$221,325,446 while payment made by local employers was \$83,513,660.



STATE EMPLOYEE DENTAL PROGRAM

The State Employee Dental Program covered as many as 99,072 eligible State employees during fiscal year 2004. The State of New Jersey as the employer expended \$29,872,124 on their behalf during that period.

