STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Financial Statements and Schedules

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 402
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Princeton, NJ 08540-6227

Independent Auditors' Report

The Board of Trustees
State of New Jersey
Teachers' Pension and Annuity Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Teachers' Pension and Annuity Fund (the Fund) as of June 30, 2008 and 2007, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures* in 2008.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions (schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The 2008 schedule of changes in fiduciary net assets by fund (schedule 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic financial statements taken as a whole.

KPMG LLP

April 29, 2009

Our discussion and analysis of the financial performance of the Teachers' Pension and Annuity Fund (the Fund or TPAF) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

Financial Highlights

2008 – 2007

- Net assets held in trust for pension benefits decreased by $2,211,179,058 as a result of fiscal year 2008 operations from $34,526,663,135 to $32,315,484,077.
- Additions for the year are $521,007,639, which are comprised of member and employer pension contributions of $1,287,384,733 and an investment loss of $766,377,094.
- Deductions for the year are $2,732,186,697, which are comprised of benefit and refund payments of $2,718,399,257 and administrative expenses of $13,787,440.

2007 – 2006

- Net assets held in trust for pension benefits increased by $3,590,275,904 as a result of fiscal year 2007 operations from $30,936,387,231 to $34,526,663,135.
- Additions for the year are $6,092,681,944, which are comprised of member and employer pension contributions of $1,217,757,094 and net investment income of $4,874,924,850.
- Deductions for the year are $2,502,406,040, which are comprised of benefit and refund payments of $2,490,062,113 and administrative expenses of $12,343,927.

The Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets

This annual report consists of two financial statements: *The Statements of Fiduciary Net Assets* and *The Statements of Changes in Fiduciary Net Assets*. These financial statements report information about the Fund and about its activities to help you assess whether the Fund, as a whole, has improved or declined as a result of the year's activities. The financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period they are earned, and expenses are recorded in the year they are incurred, regardless of when cash is received or paid.

The Statements of Fiduciary Net Assets show the balances in all of the assets and liabilities of the Fund at the end of the fiscal year. The difference between assets and liabilities represents the Fund's fiduciary net assets. Over time, increases or decreases in the Fund's fiduciary net assets provide one indication of whether the financial health of the Fund is improving or declining. *The Statements of Changes in Fiduciary Net Assets* show the results of financial operations for the year. The statements provide an explanation for the change in the Fund's fiduciary net assets since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes, including the required supplementary schedules, to determine whether the Fund is becoming financially stronger or weaker.

Financial analysis

Summary of Fiduciary Net Assets

2008 – 2007

	2008	2007	Increase
Assets	$ 38,137,002,946	42,479,670,284	(4,342,667,338)
Liabilities	5,821,518,869	7,953,007,149	(2,131,488,280)
Net assets	$ 32,315,484,077	34,526,663,135	(2,211,179,058)

The Fund's assets primarily consist of investments, securities lending collateral, contributions due from members and participating employers, accrued investment income and members loans receivable. Between fiscal years 2008 and 2007, total assets decreased by $4.3 billion or 10.2%. This is mainly due to a decrease in the fair value of investments and the securities lending collateral.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, contributory and non-contributory group insurance premiums payable to the Fund's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of TPAF for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities decreased by a net $2.1 billion or 26.8% due to a decrease in the securities lending collateral and rebates payable of $2.3 billion and an increase of $168.8 million in retirement benefits payable due to full accrual of the July 1, 2008 payroll and other payables.

Net assets held in trust for pension benefits decreased by $2.2 billion or 6.4%.

2007 – 2006

	2007	2006	Increase
Assets	$ 42,479,670,284	37,029,047,633	5,450,622,651
Liabilities	7,953,007,149	6,092,660,402	1,860,346,747
Net assets	$ 34,526,663,135	30,936,387,231	3,590,275,904

The Fund's assets consist of cash, securities lending collateral, investments, and contributions due from members and participating employers. Between fiscal years 2007 and 2006, total assets increased by $5.5 billion or 14.7%. This is due to an increase in the fair value of investments and an increase in securities lending collateral.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, non-contributory group insurance premiums owed to the Fund's insurance provider, securities lending collateral and rebates payable, and other payables. Total liabilities increased by $1.9 billion or 30.5% due to an increase in securities lending collateral and rebates payable and in benefits payable to retirees and beneficiaries.

Net assets held in trust for pension benefits increased by $3.6 billion or 11.6%.

Summary of Additions to Fiduciary Net Assets

2008 – 2007

		2008	2007	Increase (decrease)
Member contributions	$	585,800,133	523,997,776	61,802,357
Employer contributions		701,584,600	693,759,318	7,825,282
Net investment income (loss)		(766,377,094)	4,874,924,850	(5,641,301,944)
Totals	$	521,007,639	6,092,681,944	(5,571,674,305)

Additions consist of member and employer contributions and earnings from investment activities. Member contributions increased by $61.8 million or 11.8% due to normal salary and membership increases.

Employer contributions increased by $7.8 million or 1.1% over last year.

The State made a contribution of $664.4 million for fiscal year 2008. The amount contributed in fiscal year 2008 was equal to approximately 42.85% of the actuarially determined amount.

Net investment income decreased by $5.6 billion or 115.7% due to a decrease in the net appreciation of the fair value of investments.

The total investment return for all pension funds was estimated to be 2.66% loss compared to 17.1% gain in the prior year.

2007 – 2006

		2007	2006	Increase
Member contributions	$	523,997,776	507,106,612	16,891,164
Employer contributions		693,759,318	101,387,162	592,372,156
Net investment income		4,874,924,850	2,980,763,685	1,894,161,165
Totals	$	6,092,681,944	3,589,257,459	2,503,424,485

Additions consist of member and employer contributions and earnings from investment activities. Member contributions increased by $16.9 million or 3.3% due to normal salary increases and increased membership.

Employer contributions increased by $592.4 million or 584.3% over last year.

The State made a contribution of $664.5 million for fiscal year 2007, the first significant contribution to the Fund since fiscal year 1997. The amount contributed in fiscal year 2007 was equal to approximately 57.5% of the actuarially determined amount.

Net investment income increased by $1.9 billion or 63.5% due to an increase in the net appreciation in fair value of investments.

The total investment return for all pension funds was estimated to be 17.1% compared to 9.7% in the prior year.

Summary of Deductions from Fiduciary Net Assets

2008 – 2007

		2008	2007	Increase
Benefits	$	2,677,682,713	2,453,552,981	224,129,732
Refunds of contributions		40,716,544	36,509,132	4,207,412
Administrative expenses		13,787,440	12,343,927	1,443,513
Totals	$	2,732,186,697	2,502,406,040	229,780,657

Deductions are comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund. Benefit payments increased by $224.1 million or 9.1% partly due to an increase in the number of retirees. The amount of refunds processed increased by $4.2 million or 11.5%. Administrative expenses increased by $1.4 million or 11.7%.

2007 – 2006

		2007	2006	Increase
Benefits	$	2,453,552,981	2,240,882,442	212,670,539
Refunds of contributions		36,509,132	33,211,383	3,297,749
Administrative expenses		12,343,927	10,389,022	1,954,905
Totals	$	2,502,406,040	2,284,482,847	217,923,193

(Continued)

Deductions are comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund. Benefit payments increased by $212.7 million or 9.5% partly due to an increase in number of retirees. The amount of refunds processed increased by $3.3 million or 9.9%. Administrative expenses increased by $2.0 million or 18.8%.

Retirement System as a Whole

The overall funded ratios are 74.7% for fiscal year 2008 and 76.3% for fiscal year 2007.

Contacting System Financial Management

The financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the Fund's finances and to show the Fund's 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
TEACHERS' PENSION AND ANNUITY FUND

Statements of Fiduciary Net Assets

June 30, 2008 and 2007

	2008	2007
Assets:		
Cash	$ 2,669,431	324,041
Securities lending collateral	5,564,888,940	7,873,183,339
Investments, at fair value:		
Cash Management Fund	1,131,188,753	1,095,402,419
Bonds	24,989,838	48,267,062
Common Pension Fund A	10,771,711,127	14,209,164,557
Common Pension Fund B	9,125,629,231	8,996,510,103
Common Pension Fund D	7,367,324,079	7,413,993,411
Common Pension Fund E	3,381,778,527	2,166,660,146
Mortgages	61,541,363	75,157,366
Total investments	31,864,162,918	34,005,155,064
Receivables:		
Contributions:		
Members	81,169,563	74,622,578
Employers	81,544,023	83,156,679
Accrued interest and dividends	336,832,198	219,459,356
Members' loans	200,379,133	222,155,276
Other	5,356,740	1,613,951
Total receivables	705,281,657	601,007,840
Total assets	38,137,002,946	42,479,670,284
Liabilities:		
Accounts payable and accrued expenses	27,328,756	20,098,567
Retirement benefits payable	226,238,012	57,395,618
Non-contributory group insurance premiums payable	3,063,161	2,329,625
Securities lending collateral and rebates payable	5,564,888,940	7,873,183,339
Total liabilities	5,821,518,869	7,953,007,149
Net assets:		
Held in trust for pension benefits	$ 32,315,484,077	34,526,663,135

See schedule of funding progress on pages 36-37.

See accompanying notes to financial statements.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2008 and 2007

		2008	2007
Additions:			
Contributions:			
Members	$	585,800,133	523,997,776
Employers		701,584,600	693,759,318
Total contributions		1,287,384,733	1,217,757,094
Investment income:			
Net (depreciation) appreciation in fair value of investments		(2,016,278,945)	3,893,125,853
Interest		932,221,554	695,072,420
Dividends		320,891,700	289,948,564
		(763,165,691)	4,878,146,837
Less investment expense		3,211,403	3,221,987
Net investment (loss) income		(766,377,094)	4,874,924,850
Total additions		521,007,639	6,092,681,944
Deductions:			
Benefits		2,677,682,713	2,453,552,981
Refunds of contributions		40,716,544	36,509,132
Administrative and miscellaneous expenses		13,787,440	12,343,927
Total deductions		2,732,186,697	2,502,406,040
Change in net assets		(2,211,179,058)	3,590,275,904
Net assets – beginning of year		34,526,663,135	30,936,387,231
Net assets – end of year	$	32,315,484,077	34,526,663,135

See accompanying notes to financial statements.

(1) Description of the fund

The State of New Jersey Teachers' Pension and Annuity Fund (the Fund; TPAF) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. The Fund is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement benefits, death, disability and medical benefits to certain qualified members. Membership in the Fund 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. The Fund's Board of Trustees is primarily responsible for the administration of the Fund.

According to the State of New Jersey Administrative Code, all obligations of the Fund will be assumed by the State of New Jersey should the Fund terminate.

The Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*" (OPEB) as of July 1, 2006. Prior to the adoption, the Post-Retirement Medical Fund (PRM) of TPAF was reported as a trust fund and was combined with the TPAF pension trust fund plan. As a result of the implementation of GASB Statement No. 43, PRM of TPAF is combined with the State Health Benefits Program Fund (SHBP) and the Prescription Drug Program Fund (PDP) and reported as Health Benefit Program Funds. Specifically, The SHBP-Local, PDP-Local, and PRM of TPAF are combined and reported as a separate trust fund classified as a cost-sharing multiple-employer plan. Certain amounts included in the TPAF PRM are legally required to be transferred to the SHBP and are recorded as additions and deductions in TPAF PRM and SHBP. All interfund transactions have been eliminated in the financial statements of the SHBP.

In 2008, the Fund adopted the provisions of GASB Statement No. 50, "*Pension Disclosures*."

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The TPAF provides retirement, death and disability benefits. 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 Fund. 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 353, P.L. 2001 provided an increase in the special veterans' retirement allowance and the ordinary and accidental disability retirement allowances. The special veterans retirement allowance increased from 50% to 54.5% of the members' compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance increased from 40% to 43.6% of final average compensation, and the accidental disability retirement allowance increased from 66.66% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which was effective October 2001.

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

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1 percent for every year under age 60 to age 55 plus 3 percent for every year under age 55.

Significant Legislation

Chapter 103, P.L. 2007, certain parts effective July 1, 2007, provided for the following: changed contribution rate of the TPAF to 5.5% of annual compensation; imposed an annual maximum wage contribution base for members hired on or after July 1, 2007; and amended the early retirement reduction formula for the new members. If a person became a member on or after July 1, 2007, that person must be at least 60 years of age in order to retire without a reduction in their retirement allowance. The legislation also eliminated the funding for the postretirement medical benefits through the TPAF.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform. Effective January 1, 2008, the new pension loan interest rate became 4.69% per year, and an $8.00 processing fee per loan was charged. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the system when excess assets are available.

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Membership and Contributing Employers

Membership in the Fund consisted of the following at June 30, 2007 and 2006, the dates of the most recent actuarial valuations:

	2007	**2006**
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	72,748	69,467
Active members:		
Vested	75,235	75,069
Nonvested	79,861	78,819
Total active members	155,096	153,888
Total	227,844	223,355
Contributing employers	38	37

(2) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Fund is accounted for using an economic resources measurement focus.

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net assets of the Fund. 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 Fund 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*." Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

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Investments

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of seven of the defined benefit plans (PERS, TPAF, JRS, PFRS, CPFPF, SPRS and POPF). The Division of Investment separately reports the assets, liabilities and net assets of the underlying investment portfolio of the seven defined benefit plans in its Pension Fund report. The Division of Investment accounts included in the Pension Fund report are: Common Fund A, Common Fund B, Common Fund D, Common Fund E, Police and Firemen's Mortgage Program accounts and other investments owned directly by the seven defined benefit pension plans. Common Fund A invests primarily in domestic equity securities. Common Fund B invests primarily in domestic fixed income securities. Common Fund D invests primarily in foreign equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real assets and absolute return strategy investments. The Police and Firemen's Retirement System includes a mortgage loan program administered by the New Jersey Housing and Mortgage Finance Agency that provides participants with mortgages from the program at rates which are fixed by formula. The law establishing the program provides that the Fund may not sell the mortgages, and no independent market exists for them.

Investments are reported at fair value as follows:

- U.S. Government and Agency, Foreign and Corporate obligations – prices quoted by a major dealer in such securities.
- Common Stock and Equity Funds, Foreign Equity Securities, Forward Foreign Exchange Contracts – closing prices as reported on the primary market or exchange on which they trade.
- Money Market Instruments – amortized cost which approximates fair value.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.
- Alternative investments (private equity, real estate, commodity, and absolute return strategy funds) – estimated fair value provided by the general partner and/or investment manager and reviewed by management. The inputs into the determinations of fair value (particularly for private equity and real estate) require significant management judgment or estimation. Because by their very nature, alternative investments are not always readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the value that would be used if a ready market for such investments existed. The development of fair value is further complicated by (1) the current lack of liquidity in the financial system and (2) the extreme levels of volatility in the market for public equity in general and for debt securities linked to these asset classes. For these reasons, the realized value received upon the sale of these investments in the open market might be different from the fair value reported in the financial statements.

Investment transactions are accounted for on a trade or investment date basis. Gains and losses from investment transactions are determined by the average cost method. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex dividend date.

The net asset value of Common Funds A, B, D and E (Common Funds) is determined as of the close of the last day of business of each month. Purchases and redemptions of participants' units are transacted each month within fifteen days subsequent to that time and at such net asset value.

Dividends and interest earned per unit are calculated monthly and distributed quarterly for Common Fund A and B. Dividends and interest earned per unit are calculated monthly for Common Fund D, and the income earned on Common Fund D units is reinvested. Income earned per unit is calculated monthly for Common Fund E, and the income earned on Common Fund E units is reinvested.

Securities Lending

The State Investment Council policies permit Common Funds A, B and D and several of the direct pension plan portfolios to participate in securities lending programs, whereby securities are loaned to brokers or other borrowers and, in return, the pension funds have rights to the collateral received. All of the securities held in Common Funds A, B and D, and certain securities held directly by the pension plans, are eligible for the securities lending program. Collateral received may consist of cash, letters of credit, or government securities having a market value equal to or exceeding 102% (U.S. dollar denominated) or 105% (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. For Common Funds A and B, in the event that the market value of the collateral falls below 101% of the market value of all the outstanding loaned securities to an individual borrower, additional collateral shall be transferred by the borrower to the respective funds no later than the close of the next business day so that the market value of such additional collateral, when added to the market value of the other collateral, shall equal 102% of the market value of the loaned securities. For Common Fund D, in the event that the market value of the collateral falls below the collateral requirement of either 102% or 105% (depending on whether the securities are denominated in U.S. dollars or a foreign currency, respectively) of the market value of the outstanding loaned securities to an individual borrower, additional collateral shall be transferred in an amount that will increase the aggregate of the borrower's collateral to meet the collateral requirements. The securities lending contracts do not allow the Common Funds to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2008 and 2007, the Common Funds have no aggregate credit risk exposure to brokers because the collateral amount held by the Common Funds exceeded the market value of the securities on loan.

The contracts with the Common Funds' securities lending agent require them to indemnify the Common Funds if the brokers or other borrowers fail to return the securities or fail to pay the Common Funds for income distributions on the securities while they are on loan. The Common Fund D securities lending agent also indemnifies the Common Funds for any loss of principal or interest on the invested collateral. For any losses on the investment collateral in Common Funds A or B or other pension plan portfolios, the lending fee paid to the lending agent shall be reduced by 25% of the amount of such loss, up to an amount not to exceed 75% of the previous six months' securities lending fees. The securities loans can be terminated by notification by either the borrower or the Common Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment (or, in the case of floating rate notes, to the next interest rate reset date) of the cash collateral.

Derivatives

The Division of Investment, from time to time, utilizes forward foreign currency contracts, a derivative security, as a means to hedge against the currency risk in the Common Funds' foreign stock and fixed income portfolios. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

Forward foreign currency contracts are agreements to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. Forward foreign currency contracts are used to hedge against the currency risk in the Common Funds' foreign stock and fixed income portfolios.

There were no foreign forward currency contracts at June 30, 2007. The fair value of foreign forward currency contracts held directly by the Common Funds as of June 30, 2008 was as follows:

Forward currency receivable	$	1,353,214,830
Forward currency payable		1,358,471,309
Net unrealized loss		5,256,479

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The Common Funds enter into covered calls when they write (or sell) call options on underlying stocks held by the Common Funds or stock indices. The Common Funds enter into covered put options when they purchase put options on underlying stocks held by the Common Funds or stock indices. The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of call options receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. The Common Funds had written call options on 5,661,100 shares with a fair value of $895,504 at June 30, 2008. The Common Funds owned 880,000 put option contracts on the S&P 500 index with a fair value of $72,334,000 at June 30, 2008.

Certain alternative investment funds and partnerships may use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the Common Funds may have additional exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds.

The Common Funds recognize the fair value of all derivative instruments as either an asset or liability on the financial statements with the offsetting gains or losses recognized in earnings.

Members' Loans

Members who have at least three years of service in the Fund 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 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.

Chapter 92, P.L. 2007 eliminated the 4% fixed rate of interest for loans from the defined benefit plans and provided that the rate of interest will be set by the State Treasurer at a commercially reasonable rate as required by the Internal Revenue Code and permitted that an administrative processing fee may be charged for such loans. As such, effective January 1, 2008, the new pension loan interest rate became 4.69% per year, and an $8.00 processing fee per loan was charged.

Administrative Expenses

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund to the State of New Jersey, Department of the Treasury, and are included in the accompanying financial statements.

Funded Status and Funding Progress

The required supplementary information regarding the funded status and funding progress is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under State statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the June 30, 2007 and 2006 actuarial valuations, the projected unit credit was used as actuarial cost method, and the five year average of market value was used as the asset valuation method for the Fund. The actuarial assumptions included (a) 8.25% for investment rate of return and (b) 5.74% and 5.45% for projected salary increases as of June 30, 2007 and 2006, respectively.

Actuarial valuation date	June 30, 2007	June 30, 2006
Actuarial value of assets	$ 36,714,578,745	$ 35,531,294,790
Actuarial accrued liability	49,161,247,363	46,539,868,653
Unfunded (overfunded) actuarial accrued liability	12,446,668,618	11,008,573,863
Funded ratio	74.7%	76.3%
Covered payroll	$ 9,077,628,813	$ 8,748,623,186
Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll	137.1%	125.8%
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, open	Level percent, open
Payroll growth rate for amortization	4%	4%
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.74%	5.45%
Cost-of-living adjustments	1.80%	1.80%

(Continued)

(3) Investments

The Fund is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 44.36%, 43.57%, 41.13%, 33.41%, and 4.23%, respectively, of each investment total of the Pension Fund as of June 30, 2008.

The Fund is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 42.75%, 42.97%, 41.86%, 35.69%, and 5.74%, respectively, of each investment total of the Pension Fund as of June 30, 2007.

Pension funds' investments as of June 30 are as follows:

		2008	2007
Domestic equities	$	23,849,523,038	31,474,841,997
International equities		14,728,747,252	17,174,769,178
Domestic fixed income		20,276,259,245	19,648,980,451
International fixed income		2,913,035,116	996,400,682
Commodity funds		975,518,400	502,393,611
Police and Fireman's mortgages		1,288,049,378	1,109,584,450
Private equity		2,850,167,142	1,159,903,960
Real estate		1,916,228,663	1,003,932,926
Absolute return strategy funds		3,739,013,571	2,340,519,278
	$	72,536,541,805	75,411,326,533

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division of Investment and the role of the Council is to formulate investment policies. The Council issues regulations which establish guidelines for permissible investments which include domestic and international equities and exchange traded funds, covered call and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, finance companies and banks, obligations of international corporations, governments and agencies, interest rate swap transactions, fixed income exchange traded funds, U.S. Treasury futures contracts, New Jersey State and Municipal general obligations, public authority revenue obligations, collateralized notes and mortgages, commercial paper, certificates of deposit, repurchase agreements, bankers acceptances, guaranteed income contracts, funding agreements, money market funds, private equity, real estate, other real assets and absolute return strategy funds and the State of New Jersey Cash Management Fund (CMF). The CMF is a short-term cash fund and is open to state and certain non-state participants.

(Continued)

The pension funds' investment in the Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the pension funds.

The Fund's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the counterparty to a transaction, the pension funds will not be able to recover the value of investment or collateral securities that are in the possession of the third party. The pension funds' investment securities are not exposed to custodial credit risk as they are held in segregated trust accounts in the name of the pension funds with the custodians.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is evaluated by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in United States Treasury and Government agency obligations. Council regulations require minimum credit ratings for certain categories of fixed income obligations held directly by the pension funds and limit the amount that can be invested in any one issuer or issue.

(Continued)

These limits for the period July 1, 2006 through September 4, 2006 were as follows:

Category	Minimum rating[1] Moody's	Minimum rating[1] S&P	Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
Corporate obligations	Baa	BBB	25%	25%	—
U.S. finance company debt, bank debentures and NJ state and municipal obligations	A	A	10%	10%	—
Canadian obligations	A	A	10%	10%	Purchase cannot exceed greater of 10% of issue or $10 million; not more than 2% of fund assets can be invested in any one issuer
International government and agency obligations	Aa	AA	2%	10%	Not more than 1% of fund assets can be invested in any one issuer
Public authority revenue obligations	A	A	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Collateralized notes and mortgages	Baa	BBB	—	33.3%	Not more than 2% of fund assets can be invested in any one issuer
Commercial paper	P-1	A-1	—	—	—
Certificates of deposit and Banker's acceptances (rating applies to international)	Aa/P-1	—	—	—	Uncollateralized certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Guaranteed income contracts	P-1	—	—	—	A+ rating from A.M. Best for insurance companies
Money market funds	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

(1) Short term ratings (e.g. P-1, A-1, F-1) are used for commercial paper and certificates of deposit.

Effective September 5, 2006, the following limits became effective:

Category	Minimum rating[1] Moody's	S&P	Fitch	Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in any one issuer with maturities exceeding 12 months; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Aa3	AA-	AA-	25%	Greater of 25% or $10 million	Not more than 1% of fund assets can be invested in any one issuer
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Money market funds	—	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

Category	Minimum rating(1) Moody's	S&P	Fitch	Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
Interest rate swap transactions	A3	A-	A-	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 10% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue

(1) Short term ratings (e.g. P-1, A-1, F-1) are used for commercial paper and certificates of deposit.

Effective August 20, 2007, up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, finance company debt, bank debentures, international corporate obligations, collateralized notes, and mortgages and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above; prior to that, the limitation was 5% of the market value of Common Fund B.

For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category at June 30, 2008 and 2007:

	June 30, 2008						
	Moody's rating						
(In thousands)	Aaa	Aa	A	Baa	Ba	B	Caa
United States Treasury TIPS	$ 3,573,893	—	—	—	—	—	—
United States Treasury Bonds	3,914,404	—	—	—	—	—	—
United States Treasury Strips	622,327	—	—	—	—	—	—
Title XI Merchant Marine Notes	2,646	—	—	—	—	—	—
United States Government Agency	78,910	—	—	—	—	—	—
Federal Home Loan Bank Notes and Bonds	120,820	—	—	—	—	—	—
Federal Home Loan Discounted Bonds	6,670	—	—	—	—	—	—
Floating Rate Notes	28,070	—	—	—	—	—	—
Tennessee Valley Authority Strips	166,919	—	—	—	—	—	—
Domestic Corporate Obligations	428,516	674,633	3,024,990	2,642,103	90,580	41,315	84,813
Domestic Corporate Discounted Obligations	105,177	—	4,879	—	—	—	—
International Corporate Obligations	—	—	205,817	193,352	—	—	—
Real Estate Investment Trust Obligations	—	—	—	19,391	—	—	—
Finance Company Debt	385,235	476,076	744,296	268,772	—	86,584	64,347
Foreign Government Obligations	1,077,186	150,700	—	—	—	—	—
Foreign Government Discount Obligations	879,287	—	—	—	—	—	—
Adjustable Rate Municipal Bonds	31,000	135,665	135,000	—	—	—	—
International Bonds and Notes	298,755	20,274	67,775	19,889	—	—	—
Remic/FHLMC	546,377	—	—	—	—	—	—
Remic/FNMA	50,343	—	—	—	—	—	—
SBA Pass-through Certificates	100,373	—	—	—	—	—	—
GNMA Mortgage Backed Certificates	148,306	—	—	—	—	—	—
FHLM Mortgage Backed Certificates	440,058	—	—	—	—	—	—
FNMA Mortgage Backed Certificates	448,589	—	—	—	—	—	—
Asset Backed Obligations	63,791	119,057	—	139,267	—	—	—
Private Export Obligations	85,742	—	—	—	—	—	—
Exchange Traded Securities	—	—	131,820	—	—	4,700	—
	$ 13,603,394	1,576,405	4,314,577	3,282,774	90,580	132,599	149,160

The 2008 table does not include certain exchange traded funds (ETFs) totaling $39,805,000 which invest in an underlying portfolio of fixed income securities and do not have a Moody's rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

	June 30, 2007			
	Moody's rating			
(In thousands)	Aaa	Aa	A	Baa
United States Treasury Notes	$ 2,038,229	—	—	—
United States Treasury TIPS	1,875,022	—	—	—
United States Treasury Bonds	5,187,546	—	—	—
United States Treasury Strips	39,649	—	—	—
Title XI Merchant Marine Notes	2,786	—	—	—
Federal Agricultural Mortgage Corp. Notes	95,295	—	—	—
Federal Farm Credit Bank Bonds	50,227	—	—	—
Federal Home Loan Bank Bonds	289,167	—	—	—
Federal Home Loan Bank Discounted Notes	96,345	—	—	—
Federal National Mortgage Association Notes	96,355	—	—	—
Resolution Funding Corp. Obligations	6,466	—	—	—
Tennessee Valley Authority Strips	72,610	—	—	—
Floating Rate Notes	9,999	20,038	—	—
Domestic Corporate Obligations	427,646	760,349	2,093,792	2,020,011
International Corporate Obligations	—	—	47,912	35,330
Real Estate Investment Trust Obligations	—	—	—	34,025
Finance Company Debt	293,489	296,882	498,203	9,240
International Bonds and Notes	404,960	64,583	48,200	—
Foreign Government Obligations	302,900	92,516	—	—
Remic/FHLMC	952,817	—	—	—
Remic/FNMA	66,490	—	—	—
Remic/GNMA	17,969	—	—	—
GNMA Mortgage Backed Certificates	64,206	—	—	—
FHLM Mortgage Backed Certificates	939,992	—	—	—
FNMA Mortgage Backed Certificates	839,452	—	—	—
SBA Pass-through Certificates	9,700	—	—	—
Asset Backed Obligations	310,611	—	—	—
Private Export Obligations	56,771	—	—	—
Exchange Traded Securities	—	—	52,290	—
	$ 14,546,699	1,234,368	2,740,397	2,098,606

The 2007 table does not include certain corporate obligations totaling $25,310,000 which have an S&P rating of A and do not have a Moody's rating. The Police and Firemen's Mortgages and the Cash Management Fund are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature within 270 days. Certificates of deposits and bankers acceptances are limited to a term of one year or less. The maturity requirement for repurchase agreements was 15 days through September 4, 2006; this was revised to 30 days effective September 5, 2006. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

The following tables summarize the maturities (or, in the case of Remics, Police and Firemen's Mortgages and mortgage-backed securities, the expected average life) of the fixed income portfolio at June 30, 2008 and 2007:

(In thousands)	June 30, 2008				
		Maturities in years			
Fixed income investment type	**Total market value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
United States Treasury TIPS	$ 3,573,893	—	—	369,231	3,204,662
United States Treasury Bonds	3,914,404	—	—	—	3,914,404
United States Treasury Strips	622,327	—	—	—	622,327
Title XI Merchant Marine Notes	2,646	—	—	—	2,646
United States Government Agency	78,910	—	—	—	78,910
Federal Home Loan Bank Notes and Bonds	120,820	—	—	38,492	82,328
Federal Home Loan Discounted Bonds	6,670	—	—	—	6,670
Floating Rate Notes	28,071	—	18,071	10,000	—
Tennessee Valley Authority Strips	166,919	—	—	—	166,919
Domestic Corporate Obligations	6,986,947	4,993	756,272	1,655,983	4,569,699
Domestic Corporate Discounted Obligations	110,056	—	8,234	—	101,822
International Corporate Obligations	399,169	—	—	69,560	329,609
Real Estate Investment Trust Obligations	19,391	—	19,391	—	—
Finance Company Debt	2,025,311	154,379	183,305	989,819	697,808
Foreign Government Obligations	1,227,887	70,477	230,400	45,001	882,009
Foreign Government Discount Obligations	879,287	879,287	—	—	—
Adjustable Rate Municipal Bonds	301,665	—	—	—	301,665
International Bonds and Notes	406,693	—	25,795	196,102	184,796
Remic/FHLMC	546,377	—	—	19,647	526,730
Remic/FNMA	50,343	—	—	—	50,343
SBA Pass-through Certificates	100,373	—	—	100,373	—
Police and Firemen's Mortgages	1,288,049	—	—	—	1,288,049
GNMA Mortgage Backed Certificates	148,306	—	—	—	148,306
FHLM Mortgage Backed Certificates	440,058	6	181	1,820	438,051
FNMA Mortgage Backed Certificates	448,589	339	2,146	11,959	434,145
Asset Backed Obligations	322,115	—	31,144	14,594	276,377
Private Export Obligations	85,743	12,547	21,219	51,977	—
	$ 24,301,019	1,122,028	1,296,158	3,574,558	18,308,275

(In thousands)

	June 30, 2007				
		Maturities in years			
Fixed income investment type	**Total market value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
United States Treasury Notes	$ 2,038,229	148,736	447,759	1,441,734	—
United States Treasury TIPS	1,875,022	—	185,141	762,104	927,777
United States Treasury Bonds	5,187,546	—	—	86,215	5,101,331
United States Treasury Strips	39,649	—	—	—	39,649
Title XI Merchant Marine Notes	2,786	—	—	—	2,786
Federal Agricultural Mortgage Corp. Notes	95,295	—	95,295	—	—
Federal Farm Credit Bank Bonds	50,227	20,114	30,113	—	—
Federal Home Loan Bank Bonds	289,167	18,107	250,170	20,890	—
Federal Home Loan Bank Discounted Notes	96,345	—	—	—	96,345
Federal National Mortgage Association Notes	96,355	—	96,355	—	—
Resolution Funding Corp. Obligations	6,466	—	—	—	6,466
Floating Rate Notes	30,037	—	20,038	9,999	—
Tennessee Valley Authority Strips	72,610	—	—	—	72,610
Domestic Corporate Obligations	5,327,108	127,673	850,539	959,663	3,389,233
International Corporate Obligations	83,242	—	—	—	83,242
Real Estate Investment Trust Obligations	34,025	—	19,574	14,451	—
Finance Company Debt	1,097,814	59,175	552,626	243,679	242,334
Foreign Government Obligations	395,416	64,184	244,266	67,973	18,993
International Bonds and Notes	517,743	69,410	128,538	110,541	209,254
Remic/FHLMC	952,817	—	—	39,882	912,935
Remic/FNMA	66,490	—	—	18,036	48,454
Remic/GNMA	17,969	—	—	—	17,969
SBA Passthrough Certificates	9,700	—	—	9,700	—
Police and Firemen's Mortgages	1,109,585	425	839	9,292	1,099,029
GNMA Mortgage Backed Certificates	64,206	131	36	—	64,039
FHLM Mortgage Backed Certificates	939,992	—	68	2,644	937,280
FNMA Mortgage Backed Certificates	839,452	171	5,284	16,137	817,860
Asset Backed Obligations	310,611	—	59,947	59,978	190,686
Private Export Obligations	56,771	—	32,490	24,281	—
	$ 21,702,675	508,126	3,019,078	3,897,199	14,278,272

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The pension funds invest in global markets. Effective August 20, 2007, the market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government and agency obligations, cannot exceed 30% of the market value of the pension funds; previously, this limitation was 22%. Effective September 5, 2006, the market value of emerging market securities cannot exceed more than 1.5 times the percentage derived by dividing the total market capitalization of companies included in the Morgan Stanley Capital International (MSCI) Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Fund D. Prior to September 5, 2006, not more than 5% of the value of the assets held by Common Fund D can be invested in companies incorporated in emerging market countries. Not more than 10% of the market value of the emerging market securities can be invested in the common and preferred stock of any one corporation; the total amount of stock purchased of any one corporation cannot exceed 5% of its stock classes eligible to vote. Council regulations permit the pension funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio. The pension funds held forward contracts totaling approximately $1.4 billion (with a $5.3 million net exposure) at June 30, 2008. The pension funds did not have a forward contract exposure at June 30, 2007.

The pension funds had the following foreign currency exposure (expressed in U.S. dollars and in thousands) at June 30, 2008 and 2007:

	June 30, 2008			
Currency	Total market value	Equities	Foreign government obligations	Alternative investments
Australian dollar	$ 614,583	456,834	157,749	—
Brazilian Real	118,301	118,301	—	—
Canadian dollar	546,560	546,560	—	—
Chilean peso	1,286	1,286	—	—
Czech koruna	4,512	4,512	—	—
Danish krone	205,512	205,512	—	—
Euro	6,983,288	5,829,751	1,005,136	148,401
Egyptian pound	20,424	20,424	—	—
Hong Kong dollar	263,291	263,291	—	—
Hungarian forint	6,528	6,528	—	—
Indonesian rupiah	22,783	22,783	—	—
Israeli shekel	14,716	14,716	—	—
Japanese yen	2,822,687	1,943,400	879,287	—
Malaysian ringgit	18,557	18,557	—	—
Mexican peso	19,444	19,444	—	—
New Zealand dollar	18,052	18,052	—	—
Norwegian krone	451,099	451,099	—	—
Omani rial	1,991	1,991	—	—
Pakistan rupee	2,679	2,679	—	—
Philippines peso	1,050	1,050	—	—
Polish peso	9,910	9,910	—	—
Qatar rial	4,497	4,497	—	—
Singapore dollar	135,551	135,551	—	—
South African rand	69,675	69,675	—	—
South Korean won	110,363	110,363	—	—
Swedish krona	521,596	521,596	—	—
Swiss franc	1,460,269	1,460,269	—	—
New Taiwan dollar	13,978	13,978	—	—
Thailand baht	17,001	17,001	—	—
Turkish lira	27,871	27,871	—	—
British pound sterling	1,970,705	1,916,931	—	53,774
	$ 16,478,759	14,234,412	2,042,172	202,175

	June 30, 2007			
Currency	**Total market value**	**Equities**	**Foreign government obligations**	**Alternative Investments**
Australian dollar	$ 472,778	472,778	—	—
Canadian dollar	700,076	700,076	—	—
Danish krone	236,914	236,914	—	—
Euro	5,777,859	5,466,997	278,743	32,119
Hong Kong dollar	187,292	187,292	—	—
Japanese yen	4,377,681	4,377,681	—	—
Mexican peso	74,710	74,710	—	—
New Zealand dollar	26,505	26,505	—	—
Norwegian krone	426,080	426,080	—	—
Pound sterling	2,077,051	2,051,057	—	25,994
Singapore dollar	151,674	151,674	—	—
South Korean won	175,851	175,851	—	—
Swedish krona	897,683	897,683	—	—
Swiss franc	1,702,575	1,702,575	—	—
	$ 17,284,729	16,947,873	278,743	58,113

The pension funds' interests in alternative investments may contain elements of credit, currency and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition. Effective September 5, 2006, Council regulations require that not more than 18% of the market value of the Pension Fund can be invested in alternative investments, with the individual categories of real estate, real assets, private equity and absolute return strategy investments limited to 7%. On August 18, 2008 the overall limitation was revised to 28%. Not more than 5% of the market value of Common Fund E, plus outstanding commitments, may be committed to any one partnership or investment, without the prior written approval of the Council. The investments in Common Fund E cannot comprise more than 20% of any one investment manager's total assets.

(Continued)

(4) Securities Lending Collateral

The Fund's share in the securities lending program is 43.37% and 42.59% of the total market value of the collateral as of June 30, 2008 and 2007, respectively.

The securities lending collateral is subject to various risks. Among these risks are credit risk, concentration of credit risk, and interest rate risk. Agreements with the lending agents require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue. These limits are consistent with Council regulations and internal policies for funds managed by the Division of Investment. These limits for the period July 1, 2006 through September 4, 2006 were as follows:

	Minimum rating		Limitation of issuer's outstanding	Limitation	
Category	**Moody's**	**S&P**	**debt**	**of issue**	**Other limitations**
Certificates of deposit/ Banker's acceptances (rating applies to international)	Aa3/P-1	—	—	—	Uncollateralized certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Guaranteed income contracts	P-1	—	—	—	Limited to 5% of the assets of the collateral portfolio; A+ rating from A.M. Best for insurance companies
Money market funds	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

Effective September 5, 2006, the following limits became effective:

Category	Minimum rating Moody's	Minimum rating S&P	Minimum rating Fitch	Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	—
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	—
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances:						Certificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	Limited to 5% of the assets of the collateral portfolio
Money market funds	—	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

All investments in the collateral portfolio must mature or are to be redeemed within one year, except that up to 25% of the portfolio may be invested in eligible securities which mature within 25 months; provided, however, that the average maturity of all investments shall not exceed one year.

Maturities of corporate obligations, U.S. finance company debt, bank debentures, collateralized notes and mortgages, guaranteed income contracts, and funding agreements must be less than 25 months. Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 30 days. Certificates of deposit and banker's acceptances must mature in one year or less.

The collateral for repurchase agreements is limited to obligations of the U.S. Government or certain U.S. Government agencies, collateralized notes and mortgages and corporate obligations meeting certain minimum rating criteria.

Total exposure to any individual issuer is limited, except for U.S. Treasury and Government agency obligations. For money market funds, the total amount of shares or units purchased or acquired of any money market fund shall not exceed 5% of the shares or units outstanding of said money market fund. For Collateralized notes and mortgages, not more than 2% and 5% of the assets of the collateral portfolio shall be invested in the obligations of any one issuer and issue, respectively. For Guaranteed income contracts and funding agreements, the total investment in any one issuer shall be limited to 2.5% of the collateral portfolio. The Division of Investment sets individual issuer limits for Commercial paper and Certificate of deposits. For Corporate obligations, U.S. finance company debt, Bank debentures and Bankers acceptances, exposure to any one issuer shall be limited to the following percentages of the collateral portfolio in accordance with the issuer's rating from Moody's: Aaa (4%), Aa (3%), A (2%), and Baa (1%).

For securities exposed to credit risk in the collateral portfolio, the following tables disclose aggregate market value, by major credit quality rating category at June 30, 2008 and 2007. In those cases where an issuer and/or security have both a long-term and short-term rating, the short-term rating is presented.

		June 30, 2008								
	Rating									
(In thousands)	Aaa/AAA	Aaa/AA	Aa/AAA	Aa/AA	Aa/A	A/A	AA/A	A/Baa	Baa/BBB	Not rated
Corporate obligations	$ 711,148	269,317	224,455	2,835,773	570,502	1,796,638	9,988	142,151	139,676	—
Commercial paper	—	—	—	—	200,000	—	—	—	—	—
Certificates of deposit	—	—	—	608,740	753,645	—	—	—	—	—
Repurchase agreements	—	—	—	—	—	—	—	—	—	3,110,553
Asset backed securities	431,457	—	—	104,024	—	—	—	—	—	—
Money market funds	507,192	—	—	—	—	—	—	—	—	377,979
Cash	—	—	—	—	—	—	—	—	—	315
	$ 1,649,797	269,317	224,455	3,548,537	1,524,147	1,796,638	9,988	142,151	139,676	3,488,847

		June 30, 2007				
	Rating					
(In thousands)	Aaa/AAA	Aa/AA	A/A	Baa/BBB	P1	Not rated
Corporate obligations	$ 1,142,643	3,199,254	2,712,377	217,479	713,321	—
Commercial paper	—	—	—	—	3,536,172	—
Certificates of deposit	—	99,985	—	—	1,032,601	—
Repurchase agreements	—	—	—	—	—	1,765,830
Funding agreements	—	—	—	—	700,000	—
Money market funds	7,224	1,730,000	500,000	—	—	285,283
Collateralized notes	150,200	2,002	—	—	618,881	—
Cash	—	—	—	—	—	65
	$ 1,300,067	5,031,241	3,212,377	217,479	6,600,975	2,051,178

The following tables summarize the maturities of the collateral portfolio at June 30, 2008 and 2007:

	June 30, 2008		
		Maturities	
(In thousands)	Total market value	Less than one year	One year to 25 months
Corporate obligations	$ 6,699,648	5,115,159	1,584,489
Commercial paper	200,000	200,000	—
Certificates of deposit	1,362,384	1,362,384	—
Repurchase agreements	3,110,553	3,110,553	—
Money market funds	885,171	885,171	—
Asset backed securities	535,482	535,482	—
	$ 12,793,238	11,208,749	1,584,489

	June 30, 2007		
		Maturities	
(In thousands)	Total market value	Less than one year	One year to 25 months
Corporate obligations	$ 7,985,074	4,144,639	3,840,435
Commercial paper	3,536,172	3,536,172	—
Certificates of deposit	1,132,586	1,132,586	—
Repurchase agreements	1,765,830	1,765,830	—
Funding agreements	700,000	700,000	—
Money market funds	2,522,507	2,522,507	—
Collateralized notes	771,083	769,081	2,002
	$ 18,413,252	14,570,815	3,842,437

As of June 30, 2008, the pension funds had outstanding loaned investment securities with an aggregate market value of $12,580,839,859 and received cash collateral with an aggregate fair value of $12,793,553,099 and non-cash collateral of $70,403,098. As of June 30, 2007, the Pension Fund had outstanding loaned investment securities with an aggregate market value of $18,034,823,201 and received cash collateral of $18,423,399,432 and non-cash collateral of $4,471,761. In accordance with GASB accounting standards, the non-cash collateral is not reflected in the accompanying financial statements. There were no material violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries or prior-period losses during the year.

(5) Contributions

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. The full normal employee contribution rate became 5.5% of annual compensation, effective July 1, 2007 based on Chapter 103, P.L. 2007. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

Chapter 103, P.L. 2007 also provided that for members hired on or after July 1, 2007, the amount of compensation used for employer and member contributions and benefits under the TPAF cannot exceed the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act.

The State made a contribution of $664.40 million, excluding the State's contribution of non-contributory group insurance (NCGI) of $31.48 million, early retirement incentives (ERI) of $0.99 million, and others of $4.71 million for fiscal year 2008. The State made a contribution of $664.54 million, excluding the State's contribution of NCGI of $27.38 million, ERI of $0.38 million, and others of $1.46 million for fiscal year 2007. The amounts contributed in fiscal years 2008 and 2007 are equal to 42.85% and 47.22% of the actuarially determined amounts, respectively.

Beginning with the July 1, 2007 valuation, Chapter 92, P.L. 2007 removed language from existing law that permits the State Treasurer to reduce the employer normal contributions and employee contributions needed to fund the TPAF when excess assets are available.

(6) Funds

TPAF maintains the following legally required funds as follows:

Members' Annuity Savings and Accumulative Interest Fund (2008 – $7,986,454,125; 2007 – $7,563,158,194)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the Fund. Interest earned on member contributions is credited to the Accumulative Interest Fund. Member withdrawals are paid out of this Fund.

Contingent Reserve Fund (2008 – $-3,211,185,452; 2007 – $1,705,254,326)

The Contingent Reserve Fund is credited with the contributions of contributing employers. 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 and administrative expenses are made from this Fund.

Retirement Reserve Fund (2008 – $27,416,178,909; 2007 – $24,799,022,806)

The Retirement Reserve Fund is the account from which retirement benefits including cost-of-living adjustments are paid. Upon retirement of a member, accumulated contributions, together with accumulated interest, are transferred to the Retirement Reserve Fund from the Members' ASF and Accumulative Interest Fund. Any additional reserves needed for the retirement and cost-of-living benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal years 2008 and 2007) is credited to the Retirement Reserve Fund.

Special Reserve Fund (2008 – $0; 2007 – $338,834,188)

The Special Reserve Fund is the fund to which excess earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are applied. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the Fund, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund which amounted to $126.79 million as of June 30, 2008. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund (2008 – $124,036,495; 2007 – $120,393,621)

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 carrier. 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, as defined.

Non-Contributory Group Insurance Premium Fund (2008 – $0; 2007 – $0)

The Non-Contributory Group Insurance Premium Fund represents the accumulation of employer group insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the non-contributory death benefit program plus reserves held by the insurance carrier. Members are eligible by statute for the non-contributory group insurance plan in the first year of membership.

(7) Income Tax Status

Based on a May 2007 declaration of an outside tax council retained by the Attorney General of the State of New Jersey, the Fund complies with the qualification requirements of Section 401(a) of the Internal Revenue Code.

(8) Subsequent Events

Significant Legislation

Chapter 89, P.L. 2008, effective November 1, 2008, increased TPAF retirement age. If a person becomes a member on or after November 1, 2008, that person must be at least 62 years of age in order to retire without a reduction in their retirement allowance.

Investment Performance

Subsequent to the June 30, 2008 fiscal year end, global financial markets suffered significant declines in value attributable to significant strains on many of the world's largest financial institutions. These difficulties, which were caused by a combination of liquidity constraints and continued write downs of mortgage-related assets, have resulted in a global economic downturn that has negatively impacted the value of most financial assets.

The investment assets of the Pension Funds have also incurred a considerable decline in value since June 30, 2008 due to these unfavorable market conditions. As of December 31, 2008 the fair value of the portfolio declined by approximately 17.9% due to these factors. Readers of this financial statement should check the New Jersey Division of Investment's website for more current information about the fair value of the pension funds' portfolio.

Schedule 1

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information

Schedule of Funding Progress

(Unaudited - See accompanying independent auditors' report)

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)**
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	—
June 30, 2003	34,651,825,932	37,383,732,882	2,731,906,950	92.7	7,702,854,159	35.5
June 30, 2004	34,633,790,549	40,447,690,339	5,813,899,790	85.6	8,047,272,269	72.2
June 30, 2005	34,789,389,875	43,967,927,299	9,178,537,424	79.1	8,454,072,109	108.6
June 30, 2006	35,531,294,790	46,539,868,653	11,008,573,863	76.3	8,748,623,186	125.8
June 30, 2007	36,714,578,745	49,161,247,363	12,446,668,618	74.7	9,077,628,813	137.1

(Continued)

Schedule 1

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited - See accompanying independent auditors' report)

Significant actuarial methods and assumptions used in the most recent 2007 and 2006 actuarial valuations include the following:

	June 30, 2007	**June 30, 2006**
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, open	Level percent, open
Payroll growth rate for amortization	4.00%	4.00%
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.74%	5.45%
Cost-of-living adjustments	1.80%	1.80%

Schedule 2

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited - See accompanying independent auditors' report)

Year ended June 30	Annual required contribution	Employer contributions[(1)(3)]	Percentage contributed
1999	$ 314,671,482	258,816,649	82.2%
2000	368,904,564	—	—
2001	—	—	N/A
2002	—	—	N/A
2003	194,435,594	—	—
2004	686,284,850	—	—
2005	883,460,483	—	—
2006	1,177,674,055	94,226,363 [(2)]	8.0
2007	1,407,249,580	690,794,259	49.1
2008	1,550,503,835	695,275,811	44.8

Notes to schedule:

(1) Excludes post-retirement medical contributions and contributions received from other State of New Jersey retirement systems or funds for certain members who transferred their eligible prior service credit to the Teachers' Pension and Annuity Fund.

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

(2) As of June 30, 2005 actuarial valuation, the assets in the Benefit Enhancement Fund were fully depleted. In fiscal year 2006, the State started to make a contribution to the Fund to satisfy the actuarially accrued liability.

(3) Differences between the amounts in the employer contribution column in this schedule and the amounts recorded in the financial statements and footnotes are attributed to timing differences between the 2007 actuarial valuations and the actual amounts received in fiscal year 2008. Employer contributions per this schedule represent anticipated contribution amounts determined at the time the actuarial valuations were prepared and finalized prior to the end of fiscal year 2008. The financial statements and footnotes reflect the actual amounts received in 2008.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2008

	Members' annuity savings and accumulative interest fund	Contingent Reserve Fund	Retirement Reserve Fund	Special Reserve Fund	Contributory Group Insurance Premium Fund	Non-Contributory Group Insurance Premium Fund	Total
Additions:							
Contributions:							
Members	$ 548,877,762	—	—	—	36,922,371	—	585,800,133
Employers	—	670,100,404	—	—	—	31,484,196	701,584,600
Total contributions	548,877,762	670,100,404	—	—	36,922,371	31,484,196	1,287,384,733
Distribution of net investment income (loss)	565,545,655	(3,474,444,161)	2,136,836,146	—	5,685,266	—	(766,377,094)
Total additions	1,114,423,417	(2,804,343,757)	2,136,836,146	—	42,607,637	31,484,196	521,007,639
Deductions:							
Benefits	—	—	2,607,233,754	—	38,964,763	31,484,196	2,677,682,713
Refunds of contributions	39,575,077	1,141,467	—	—	—	—	40,716,544
Administrative and miscellaneous expenses	—	13,787,440	—	—	—	—	13,787,440
Total deductions	39,575,077	14,928,907	2,607,233,754	—	38,964,763	31,484,196	2,732,186,697
Net increase (decrease) before transfers among reserves	1,074,848,340	(2,819,272,664)	(470,397,608)	—	3,642,874	—	(2,211,179,058)
Transfers among reserves:							
Retirements	(655,828,019)	(1,341,877,886)	1,997,705,905	—	—	—	—
Other	4,275,610	(755,289,228)	1,089,847,806	(338,834,188)	—	—	—
Net increase (decrease)	423,295,931	(4,916,439,778)	2,617,156,103	(338,834,188)	3,642,874	—	(2,211,179,058)
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	7,563,158,194	1,705,254,326	24,799,022,806	338,834,188	120,393,621	—	34,526,663,135
End of year	$ 7,986,454,125	(3,211,185,452)	27,416,178,909	—	124,036,495	—	32,315,484,077