



**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Pension Amounts

June 30, 2023

(With Independent Auditors' Report Thereon)

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

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Independent Auditors' Report

The Treasurer
State of New Jersey:

Opinions

We have audited the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (benefit) (specified column totals) included in the accompanying schedule of pension amounts of the State of New Jersey Judicial Retirement System as of and for the year ended June 30, 2023, and the related notes.

In our opinion, the accompanying schedule referred to above presents fairly, in all material respects, the net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (benefit) for the State of New Jersey Judicial Retirement System as of and for the year ended June 30, 2023, in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Schedule section of our report. We are required to be independent of the State of New Jersey Judicial Retirement System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Schedule

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

Auditors' Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the specified column totals included in the schedule of pension amounts are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the specified column totals included in the schedule of pension amounts.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the specified column totals included in the schedule of pension amounts, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts in the specified column totals included in the schedule of pension amounts and the related disclosures.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of New Jersey Judicial Retirement System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the specified column totals included in the schedule of pension amounts.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

We have audited, in accordance with GAAS, the financial statements of the State of New Jersey, Division of Pensions and Benefits, which includes the Judicial Retirement System, as of and for the year ended June 30, 2023, and our report thereon, dated March 22, 2024, expressed an unmodified opinion on those financial statements.

Restriction on Use

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

KPMG LLP

Short Hills, New Jersey
May 24, 2024

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JUDICIAL RETIREMENT SYSTEM**

Schedule of Pension Amounts

As of and for the year ended June 30, 2023

	Deferred outflows of resources			Deferred inflows of resources			
	Differences between expected and actual experience	Net difference between projected and actual investment earnings on pension plan investments	Total deferred outflows of resources	Differences between expected and actual experience	Changes of assumptions	Total deferred inflows of resources	Total pension expense (benefit)
\$ 710,817,008	1,081,935	8,105,990	9,187,925	63,753	16,080,142	16,143,895	(48,768,627)

See accompanying notes to schedule of pension amounts.

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JUDICIAL RETIREMENT SYSTEM**

Notes to Schedule of Pension Amounts

June 30, 2023

(1) Plan Description

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

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

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

(2) Basis of Presentation

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

(3) Contributions

The contribution policy for JRS is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey (the State). State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. For fiscal year 2023, the State's pension contribution approximates the actuarial determined amount.

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June 30, 2023

(4) Net Pension Liability and Actuarial Information

Components of Net Pension Liability

The components of the net pension liability for JRS as of June 30, 2023 are as follows:

Total pension liability	\$	923,451,423
Plan fiduciary net position		212,634,415
Net pension liability	\$	710,817,008

The total pension liability for the June 30, 2023 measurement date was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate:	
Price	2.75 %
Wage	3.25 %
Salary increases:	
Through 2025	2.00 %
Thereafter	2.75 %
Investment rate of return	7.00 %

Pre-retirement mortality rates were based on the Pub-2010 Teachers Above-Median Income Employee mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 Teachers Above-Median Income Healthy Retiree mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Disability mortality rates were based on the Pub-2010 Non-Safety Disabled Retiree mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021.

The actuarial assumptions used in the July 1, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2021.

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2023) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage

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and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in JRS's target asset allocation as of June 30, 2023 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	28.00%	8.98%
Non-U.S. Developed Markets Equity	12.75%	9.22%
International Small Cap Equity	1.25%	9.22%
Emerging Markets Equity	5.50%	11.13%
Private Equity	13.00%	12.50%
Real Estate	8.00%	8.58%
Real Assets	3.00%	8.40%
High Yield	4.50%	6.97%
Private Credit	8.00%	9.20%
Investment Grade Credit	7.00%	5.19%
Cash Equivalents	2.00%	3.31%
U.S. Treasuries	4.00%	3.31%
Risk Mitigation Strategies	3.00%	6.21%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2023. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be based on 100% of the actuarially determined contributions for the State. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments in determining the total pension liability.

Sensitivity of Net Pension Liability

The following presents the net pension liability of JRS as of June 30, 2023, calculated using the discount rate as disclosed above as well as what JRS's net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

<u>At 1% decrease (6.00%)</u>	<u>At current discount rate (7.00%)</u>	<u>At 1% increase (8.00%)</u>
795,552,119	710,817,008	637,609,978

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

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2023:

	<u>Year of deferral</u>	<u>Amortization period</u>	<u>Beginning of year balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of year balance</u>
Deferred Outflows of Resources:						
Differences between expected and actual experience	2020	3.37 years	\$ 309,201	—	309,201	—
	2022	2.95 years	206,212	—	105,750	100,462
	2023	3.05 years	—	1,460,241	478,768	981,473
Subtotal			<u>515,413</u>	<u>1,460,241</u>	<u>893,719</u>	<u>1,081,935</u>
Changes of assumptions	2020	3.37 years	12,377,879	—	12,377,879	—
Subtotal			<u>12,377,879</u>	<u>—</u>	<u>12,377,879</u>	<u>—</u>
Differences between projected and actual investment earnings on pension plan investments	2019	5 years	321,164	—	321,164	—
	2020	5 years	3,321,855	—	1,660,927	1,660,928
	2021	5 years	(16,470,505)	—	(5,490,168)	(10,980,337)
	2022	5 years	28,182,726	—	7,045,681	21,137,045
	2023	5 years	—	(4,639,557)	(927,911)	(3,711,646)
Subtotal			<u>15,355,240</u>	<u>(4,639,557)</u>	<u>2,609,693</u>	<u>8,105,990</u>
Total Deferred Outflows of Resources			<u>\$ 28,248,532</u>	<u>(3,179,316)</u>	<u>15,881,291</u>	<u>9,187,925</u>
Deferred Inflows of Resources:						
Differences between expected and actual experience	2021	3.12 years	\$ 595,016	—	531,263	63,753
Changes of assumptions	2021	3.12 years	144,487,580	—	129,006,768	15,480,812
	2022	2.95 years	1,230,205	—	630,875	599,330
Subtotal			<u>145,717,785</u>	<u>—</u>	<u>129,637,643</u>	<u>16,080,142</u>
Total Deferred Inflows of Resources			<u>\$ 146,312,801</u>	<u>—</u>	<u>130,168,906</u>	<u>16,143,895</u>

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

Year ending June 30:		
2024	\$	(13,276,135)
2025		1,106,369
2026		6,141,709
2027		<u>(927,913)</u>
Total	\$	<u><u>(6,955,970)</u></u>

(6) Pension Expense (Benefit)

The components of total pension expense (benefit) for the year ending June 30, 2023 are as follows:

Service cost	\$	25,247,323
Interest on total pension liability		62,546,102
Member contributions		(9,799,479)
Administrative expense		177,626
Expected investment return net of investment expenses		(12,652,584)
Current period recognition (amortization) of deferred inflows/outflows of resources:		
Differences between expected and actual experience		362,456
Changes of assumptions		(117,259,764)
Difference between projected and actual investment earnings on pension plan investments		<u>2,609,693</u>
Total pension expense (benefit)	\$	<u><u>(48,768,627)</u></u>