

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
FINANCIAL STATEMENTS AND SCHEDULES
June 30, 2012
(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

Office of Legislative Services
Office of the State Auditor
State of New Jersey

We have audited the accompanying statements of the benefit funds administered by the State of New Jersey Division of Pensions and Benefits (the Division) as of and for the year ended June 30, 2012, which collectively comprise the Division's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Division are intended to present the fiduciary net assets and the changes in fiduciary net assets of the benefit funds administered by the Division. They do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2012 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the benefit funds administered by the State of New Jersey Division of Pension and Benefits as of June 30, 2012, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information, presented on Schedules 3 through 22, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information, including the information presented on Schedules 3 through 22, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Mt. Laurel, New Jersey
November 5, 2012

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis

June 30, 2012

Our discussion and analysis of the financial performance of the fiduciary funds (the Funds) administered by the Division of Pensions and Benefits (the Division) provides an overview of the Funds' financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

Fiduciary Funds - Pension Trust and State Health Benefit Program Funds

- Fiduciary net assets decreased by \$3.1 billion as a result of this year's operations from \$81.0 billion to \$77.9 billion.
- Additions for the year are \$10.9 billion, which are comprised of member and employer pension contributions of \$9.2 billion and investment income of \$1.7 billion.
- Deductions for the year are \$14.1 billion, which are comprised of benefit and refund payments of \$14.1 billion and administrative expenses of \$46.5 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of two components: 1) fiduciary fund financial statements and 2) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fiduciary Funds

Fiduciary funds are used to account for the assets that the Division holds on behalf of others as their agent. Fiduciary funds are custodial in nature and do not involve measurement of results of operations.

The Division administers eighteen fiduciary funds: twelve pension trust funds, three health benefit program funds, and three agency funds. The basic fiduciary fund financial statements consist of the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements and includes a description of the fiduciary funds.

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DIVISION OF PENSIONS AND BENEFITS**

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Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which includes information regarding the funding status of the pension trust and state health benefit program funds.

Financial Analysis

**Summary of Fiduciary Net Assets
Pension Trust and State Health Benefit Program Funds**

| | 2012 | 2011 | Increase (decrease) |
|-------------|-------------------|----------------|--------------------------------|
| Assets | \$ 80,497,592,498 | 83,180,710,720 | (2,683,118,222) |
| Liabilities | 2,613,602,458 | 2,113,100,438 | 500,502,020 |
| Net assets | \$ 77,883,990,040 | 81,067,610,282 | (3,183,620,242) |

Assets of the pension trust and state health benefit program funds consist primarily of investments, securities lending collateral, contributions due from members and participating employers, accrued interest and dividends on investments, members' loans and other receivables. Between fiscal years 2011 and 2012, total assets decreased by \$2.7 billion or 3.2%. This is due to a reduction of \$3.2 billion in investment holdings that were utilized to pay benefits of the funds, an increase in the securities lending collateral of \$0.3 billion, and a net increase in cash and receivables of \$0.2 billion.

Liabilities of the pension trust and state health benefit program funds consist primarily of retirement benefits payable to retirees and beneficiaries, contributory and non-contributory group life insurance (NCGI) premiums payable to the Funds' insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, outstanding medical claims payable to the medical providers under the State Health Benefits Program (SHBP). Also included with accounts payable and accrued expense are liabilities of the pension trust funds for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities increased by \$0.5 billion or 23.7%. This is due to an increase in the securities lending collateral and rebates payable of \$0.3 billion and an increase in retirement benefits payable and others of \$0.2 billion.

Net assets of the pension trust and state health benefit program funds increased by \$3.2 billion or 3.9%.

**Summary of Fiduciary Net Assets
Agency Funds**

| | 2012 | 2011 | Increase |
|-------------|---------------|-------------|-----------------|
| Assets | \$ 60,038,707 | 47,982,744 | 12,055,963 |
| Liabilities | 60,038,707 | 47,982,744 | 12,055,963 |
| Net assets | \$ — | — | — |

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Assets of the agency funds consist of cash and cash equivalents, investments and contributions due from the State and local employers. Between fiscal years 2011 and 2012, total assets increased by \$12.0 million or 25.1%. This is attributable to the increased amount invested in the Cash Management Fund (CMF) of \$9.1 million, a small increase in cash and cash equivalents and an increase in total receivables of \$2.9 million.

Liabilities in the agency funds vary according to plan. In the Alternate Benefit Program (ABP), they include reimbursements to state and county colleges, reimbursement to the State of New Jersey general fund of any unused appropriations and non-contributory group life insurance benefits payable. In the Dental Expense Program (DEP), they include claims payable, and in the Pension Adjustment Fund (PAF), they include liabilities for payroll and amounts due to the State of New Jersey general fund and other pension funds. Between fiscal years 2011 and 2012, total liabilities increased by \$12.0 million or 25.1%. This is comprised of a \$0.8 million decrease in liabilities in the PAF, a \$6.6 million increase in liabilities in DEP, and a \$6.2 million increase in ABP liabilities.

**Summary of Changes to Fiduciary Net Assets
Pension Trust and State Health Benefit Program Funds**

| | <u>2012</u> | <u>2011</u> | <u>Increase (decrease)</u> |
|----------------------------------|---------------------------|-----------------------|--------------------------------|
| Additions: | | | |
| Member contributions | \$ 2,309,269,955 | 2,094,692,660 | 214,577,295 |
| Employer contributions and other | 6,912,323,830 | 5,364,672,450 | 1,547,651,380 |
| Net investment income (loss) | 1,722,074,598 | 11,993,659,321 | (10,271,584,723) |
| Total additions | <u>10,943,668,383</u> | <u>19,453,024,431</u> | <u>(8,509,356,048)</u> |
| Deductions: | | | |
| Benefits | 13,923,519,412 | 12,820,748,823 | 1,102,770,589 |
| Refunds of contributions | 157,270,934 | 162,706,881 | (5,435,947) |
| Administrative expenses | 46,498,279 | 50,126,876 | (3,628,597) |
| Total deductions | <u>14,127,288,625</u> | <u>13,033,582,580</u> | <u>1,093,706,045</u> |
| Changes in net assets | <u>\$ (3,183,620,242)</u> | <u>6,419,441,851</u> | <u>(9,603,062,093)</u> |

Additions of the pension trust and state health benefit program funds consist of member and employer contributions and earnings from investment activities. There is a decrease of \$8.5 billion or 43.7% in total additions, mainly attributable to lesser net investment income in fiscal year 2012 as compared to fiscal year 2011.

Member contributions increased by \$214.6 million overall of which \$11.5 million increase is attributable to the state health benefit program funds and a \$203.1 million increase is attributable to the pension trust funds. In the SHBP – State, the member contributions increased by \$11.7 million or 8.3%, in SHBP – Local the member contributions increased by \$2.9 million or 7.3% and in SHBP – Education, the member contributions decreased by \$3.1 million or -5.9%. Active employee contribution increased as a result of Chapter 78, P.L. 2011 premium share requirements. In plan year 2012 the active employee group rate for SHBP – State increased by 9.0%, in SHBP – Local the increase was 10.3% and in SHBP – Education the increase was 10.1%. SHBP membership increases between plan year 2011 and 2012 also contributed to the higher member contributions. However, in the SHBP – Education total member contributions decreased between fiscal year 2011 and fiscal year 2012 due to a

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reduction in the number of self pay members with adult child coverage as a result of the extension of coverage for qualified adult child under the provisions of the federal Patient Protection and Affordable Care Act (PPACA).

For the pension trust funds, the increase in member contributions is attributable to the higher member contribution rate for the various pension plans as required in Chapter 78, P.L. 2011.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. Based on that, the State made pension contributions totaling \$484.5 million as follows: \$287.5 million to the Teachers' Pension and Annuity Fund (TPAF), \$124.9 million to Public Employees' Retirement System (PERS), \$53.6 million to Police & Firemen's Retirement System (PFRS), \$0.2 million to Consolidated Police & Firemen's Pension Fund (CPFPPF), \$5.5 million to Judicial Retirement System (JRS), and \$12.8 million to the State Police Retirement System (SPRS).

State non-contributory group life insurance contributions for fiscal year totaling \$67.4 million were as follows: \$30.8 million for TPAF, \$29.8 million for PERS, \$5.6 million for PFRS, \$0.5 million for JRS, and \$0.7 million for SPRS. Between fiscal years 2011 and 2012, the State's contribution toward non-contributory group life insurance decreased by \$4.2 million due to lower claims activity. State non-contributory life insurance benefits are funded on a pay-as-you-go basis. The local contributions for PERS and PFRS are included in the annual billings to local employers.

The annual local employer pension appropriation billings normally increase due to the salaries of employees and the rate of contribution as determined by the actuary. For PERS, the amount accrued in fiscal year 2011 for normal contribution, accrued liability and NCGI was \$826.0 million and was due on April 1, 2012. For fiscal year 2012, the total amount accrued was \$784.7 million and is due April 1, 2013. For PFRS the total amount accrued in fiscal year 2011 for normal contributions, accrued liability and NCGI was \$763.2 million and was due April 1, 2012. For fiscal year 2012, the total amount accrued was \$781.2 million and is due April 1, 2013.

The local billing amounts due April 1, 2013 for PERS and PFRS are impacted by various provisions of Chapter 78, P.L. 2011, the revised economic actuarial assumptions including the assumed rate of return decreasing from 8.25% to 7.95% and the reduction in salary increase assumption of -2% for the first five years and -0.75% for all years thereafter.

The SHBP – State employer contributions decreased by \$82.0 million. This is a result of using available reserves to cover claims. For the SHBP – Local, employer contributions increased by \$89.1 million. For the SHBP-Education, employer contributions increased by \$107.0 million. These increases are attributable to rate increases effective January 1, 2011.

The total investment return for all pension funds was estimated to be a gain of 2.52% compared to a gain of 18.03% in the prior year. As a result, net investment income decreased by \$10.3 billion or 85.6% due to the lower investment return in fiscal year 2012 as compared to fiscal year 2011.

Deductions of the pension trust and state health benefit program funds are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Funds to run the pension plans. Also included are claim charges for the self-insured health and prescription drug benefit programs. Between fiscal years 2011 and 2012, benefit payments increased by \$1.1 billion or 8.7% due to an increase in the number of retirees receiving retirement and other benefits. The number of

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refunds processed decreased by \$5.4 million or 3.3% compared to last year. Administrative expenses decreased by \$3.6 million or 7.2%.

The reduction in net assets of \$3.2 billion was mainly attributable to less investment income and increased benefit payments when comparing fiscal year 2012 to fiscal year 2011.

Overall Financial Condition of the Funds

For the defined benefit pension trust funds, the combined funded ratio is 67.5% based on the revised current actuarial valuation dated July 1, 2011, reflecting the impact of the revised economic assumption changes, with an unfunded actuarial accrued liability of \$41.7 billion on an actuarial basis per GASB Statement No. 25 as compared to 70.5% based on the prior year valuation with an unfunded actuarial accrued liability of \$36.3 billion. The increase in the unfunded pension liability and the decrease in the overall funded ratio is mainly attributable to expected actuarial losses including the investment return of 2.52% being lower than the assumed rate of return of 7.95% and the State's pension contribution of 1/7th of the actuarially required amount being less than the full actuarially required amount.

For the SHBP – Education, total expenses incurred exceeded total revenues recognized by \$185.3 million, reducing the surplus at the beginning of the year from \$369.2 million to \$183.9 million at year end. This reduction is due in part to retired rates that were set to utilize some of the funds surplus balance. In addition, on the retired side, available fund balance was used to cover a portion of the State's required premium contributions. Lastly, there was an increase in incurred-but-not-reported claims between fiscal year 2011 and fiscal year 2012, which also contributed to the reduction in the surplus at year end. For the SHBP – State, total expenses incurred exceeded total revenues recognized by \$116.3 million, reducing the balance from a surplus at the beginning of the year of \$16.2 million to a deficit of \$100.1 million at year end. This is primarily due to the State of New Jersey using available reserves to cover claims payments. For the SHBP – Local, total expenses incurred exceeded total revenues recognized by \$5.2 million, reducing the surplus at the beginning of the year from \$153.1 million to \$147.9 million at year end which is attributable to higher claims payments.

For the state health benefit program funds for fiscal year 2012, based on the current actuarial valuation dated July 1, 2011, the State had a \$18.0 billion unfunded actuarial accrued liability for other post-employment benefits (OPEB) under Governmental Accounting Standards Board (GASB) Statement No. 43 for the SHBP – State active and retired members and \$30.9 billion for the SHBP – Education employees and retirees that become the obligation of the State of New Jersey upon retirement. In comparison, based on the prior year actuarial valuation, the State had a \$21.1 billion unfunded actuarial accrued liability for the SHBP - State active and retired members and \$38.2 billion for the SHBP - Education employees and retirees. The reduction in the overall unfunded actuarial accrued liability is mainly attributable to the changed method of prescription drug integration from the Retiree Drug Subsidy to the Employer Group Waiver Program and Chapter 78, P.L. 2011 that increased contribution requirements for some future retirees. The SHBP - Local fiscal year 2012 unfunded actuarial accrued liability for OPEB based on the same actuarial valuation was \$11.1 billion and, for the prior year actuarial valuation, the liability was \$12.1 billion.

During the year, the ABP and the PAF received sufficient funding to meet their benefit obligations.

For the State Employees Deferred Compensation Plan and the Supplemental Annuity Collective Trust, members are 100% vested in the present value of their contributions, and the funds have sufficient assets to meet future benefit obligations.

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

Management's Discussion and Analysis

June 30, 2012

Contacting System Financial Management

This financial report is designed to provide our members, beneficiaries, investors, and other interested parties with a general overview of the Funds' finances and to show the Funds' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012

| | Pension Trust and State Health Benefit Program Funds | Agency Funds |
|---|---|-------------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 721,890,499 | \$ 2,410,643 |
| Securities lending collateral | 1,209,086,214 | - |
| Investments, at fair value: | | |
| Cash Management Fund | 1,790,977,439 | 28,235,738 |
| Common Pension Fund A | 17,810,813,505 | - |
| Common Pension Fund B | 19,869,132,559 | - |
| Common Pension Fund D | 14,106,117,246 | - |
| Common Pension Fund E | 16,810,102,421 | - |
| Common stocks | 152,251,163 | - |
| Mortgages | 963,899,029 | - |
| U.S. Government obligations | 371,746,092 | - |
| Domestic equities | 1,117,461,645 | - |
| International equities | 257,677,868 | - |
| Other fixed income securities | 779,384,678 | - |
| Total investments | 74,029,563,645 | 28,235,738 |
| Receivables: | | |
| Contributions: | | |
| Members | 169,983,858 | - |
| Employers | 3,155,338,564 | 852,147 |
| Accrued interest and dividends | 5,406,223 | - |
| Members' loans | 1,169,454,489 | - |
| Securities sold in transit | 16,105,017 | - |
| Other | 20,763,989 | 28,540,179 |
| Total receivables | 4,537,052,140 | 29,392,326 |
| Total assets | 80,497,592,498 | 60,038,707 |
| Liabilities: | | |
| Accounts payable and accrued expenses | 686,006,889 | 57,047,268 |
| Retirement benefits payable | 706,265,336 | - |
| Non-contributory group insurance premiums payable | 14,094,987 | - |
| Assets held for local contributing employers | - | 2,412,989 |
| Pension adjustment payroll payable | - | 237,510 |
| Due to State of New Jersey | - | 163,355 |
| Due to other funds | - | 177,585 |
| Securities lending collateral and rebates payable | 1,207,235,246 | - |
| Total liabilities | 2,613,602,458 | 60,038,707 |
| Net assets: | | |
| Held in trust for pension and health benefits | \$ 77,883,990,040 | \$ - |

See schedule of funding progress on pages 48-52.

The accompanying notes are an integral part of the financial statements.

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Combining Statement of Fiduciary Net Assets
Fiduciary Funds – Pension Trust and State Health Benefit Program Funds

June 30, 2012

| | Alternate Benefit Long-term Disability Fund | Central Pension Fund | Consolidated Police and Firemen's Pension Fund | Deferred Compensation Plan | Defined Contribution Retirement Plan | Judicial Retirement System | Police and Firemen's Retirement System | Prison Officers' Pension Fund | Public Employees' Retirement System | State Police Retirement System | Supplemental Annuity Trust | Teachers' Pension and Annuity Fund | State Health Benefit Program Fund State | State Health Benefit Program Fund Local | State Health Benefit Program Fund Education | Total |
|--|---|----------------------------|--|----------------------------------|---|----------------------------------|---|--|--|---|----------------------------------|---|---|---|---|-----------------------|
| Assets: | | | | | | | | | | | | | | | | |
| Cash | \$ - | 39,061 | 425,590 | 12,231 | 7,805 | 3,708,778 | 156,279,415 | 367,693 | 237,096,071 | 14,482,638 | 721,528 | 297,561,120 | 382,903 | 3,170,749 | 7,634,917 | 721,890,499 |
| Securities lending collateral | - | - | - | - | - | 3,840,518 | 329,622,358 | - | 407,441,067 | 29,163,423 | - | 439,018,848 | - | - | - | 1,209,086,214 |
| Investments, at fair value: | | | | | | | | | | | | | | | | |
| Cash Management Fund | 1,232,900 | 1,837 | 4,394,113 | 59,269,558 | 684,832 | 7,938,281 | 64,434,348 | 8,823,537 | 510,751,556 | 16,419,636 | 2,125,512 | 444,248,284 | 94,067,107 | 191,706,595 | 384,879,343 | 1,790,977,439 |
| Common Pension Fund A | - | - | - | - | - | 56,600,129 | 5,005,961,988 | - | 5,905,287,272 | 436,301,099 | - | 6,406,663,017 | - | - | - | 17,810,813,505 |
| Common Pension Fund B | - | - | - | - | - | 49,131,942 | 4,701,599,501 | - | 7,207,729,364 | 534,332,038 | - | 7,376,339,714 | - | - | - | 19,869,132,559 |
| Common Pension Fund D | - | - | - | - | - | 48,122,001 | 3,861,236,828 | - | 4,730,929,141 | 320,147,504 | - | 5,145,681,772 | - | - | - | 14,106,117,246 |
| Common Pension Fund E | - | - | - | - | - | 69,117,360 | 4,987,508,401 | - | 5,512,648,964 | 401,873,782 | - | 5,838,953,914 | - | - | - | 16,810,102,421 |
| Common Stocks | - | - | - | - | - | - | - | - | - | - | 152,251,163 | - | - | - | - | 152,251,163 |
| Mortgages | - | - | - | - | - | - | 963,899,029 | - | - | - | - | - | - | - | - | 963,899,029 |
| U.S. government obligations | - | - | - | 371,746,092 | - | - | - | - | - | - | - | - | - | - | - | 371,746,092 |
| Domestic equities | - | - | - | 1,117,461,645 | - | - | - | - | - | - | - | - | - | - | - | 1,117,461,645 |
| International equities | - | - | - | 257,677,868 | - | - | - | - | - | - | - | - | - | - | - | 257,677,868 |
| Other fixed income securities | - | - | - | 779,384,678 | - | - | - | - | - | - | - | - | - | - | - | 779,384,678 |
| Total investments | 1,232,900 | 1,837 | 4,394,113 | 2,585,539,841 | 684,832 | 230,909,713 | 19,584,640,095 | 8,823,537 | 23,867,346,297 | 1,709,074,059 | 154,376,675 | 25,211,886,701 | 94,067,107 | 191,706,595 | 384,879,343 | 74,029,563,645 |
| Receivables: | | | | | | | | | | | | | | | | |
| Contributions: | | | | | | | | | | | | | | | | |
| Members | - | - | - | - | - | 71,376 | 47,526,660 | - | 53,075,058 | 776 | 269,583 | 75,493,466 | (2,011,030) | (2,501,870) | (1,940,161) | 169,983,858 |
| Employers | - | - | - | - | 32,146 | - | 984,397,141 | - | 1,984,946,060 | 76,940 | - | 73,048,240 | 8,273,382 | 65,782,035 | 38,782,620 | 3,155,338,564 |
| Accrued interest and dividends | - | 1 | 22 | 1,178,243 | - | 38 | 3,942,398 | 8 | 2,633 | 148 | 279,536 | 3,196 | - | - | - | 5,406,223 |
| Members' loans | - | - | - | - | - | 912,566 | 366,063,933 | - | 548,926,942 | 20,077,382 | - | 233,473,666 | - | - | - | 1,169,454,489 |
| Securities sold in transit | - | - | - | 160,230 | - | - | 15,944,787 | - | - | - | - | - | - | - | - | 16,105,017 |
| Other | 323,165 | - | 439,819 | - | - | 136,497 | 5,792,569 | - | 7,201,606 | 62,372 | - | 3,360,296 | 969,629 | 1,116,142 | 1,361,894 | 20,763,989 |
| Total receivables | 323,165 | 1 | 439,841 | 1,338,473 | 32,146 | 1,120,477 | 1,423,667,488 | 8 | 2,594,152,299 | 20,217,618 | 549,119 | 385,378,864 | 7,231,981 | 64,396,307 | 38,204,353 | 4,537,052,140 |
| Total assets | \$ 1,556,065 | 40,899 | 5,259,544 | 2,586,890,545 | 724,783 | 239,579,486 | 21,494,209,356 | 9,191,238 | 27,106,035,734 | 1,772,937,738 | 155,647,322 | 26,333,845,533 | 101,681,991 | 259,273,651 | 430,718,613 | 80,497,592,498 |
| Liabilities: | | | | | | | | | | | | | | | | |
| Accounts payable and accrued expenses | \$ - | 19,845 | 8,677 | 846,662 | - | 227 | 4,142,032 | 825 | 68,258,739 | 54,074 | 242,138 | 52,435,103 | 201,825,466 | 111,346,483 | 246,826,618 | 686,006,899 |
| Retirement benefits payable | - | 21,054 | 392,007 | - | - | 3,708,945 | 151,829,114 | 146,177 | 239,243,238 | 13,840,401 | 2,528,816 | 294,555,584 | - | - | - | 706,265,336 |
| Non-contributory group insurance premiums payable | - | - | - | - | 32,146 | - | 2,040,589 | - | 8,275,465 | 76,940 | - | 3,669,847 | - | - | - | 14,094,987 |
| Securities lending collateral and rebates payable | - | - | - | - | - | 3,834,649 | 329,113,056 | - | 406,820,294 | 29,118,498 | - | 438,348,749 | - | - | - | 1,207,235,246 |
| Total liabilities | - | 40,899 | 400,684 | 846,662 | 32,146 | 7,543,821 | 487,124,791 | 147,002 | 722,597,736 | 43,089,913 | 2,770,954 | 789,009,283 | 201,825,466 | 111,346,483 | 246,826,618 | 2,613,602,458 |
| Net assets held in trust for pension and health benefits | \$ 1,556,065 | - | 4,858,860 | 2,586,043,883 | 692,637 | 232,035,665 | 21,007,084,565 | 9,044,236 | 26,383,437,998 | 1,729,847,825 | 152,876,368 | 25,544,836,250 | (100,143,475) | 147,927,168 | 183,891,995 | 77,883,990,040 |

The accompanying notes are an integral part of the financial statements.

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year Ended June 30, 2012

| | Pension Trust and State Health Benefit Program Funds |
|---|---|
| Additions: | |
| Contributions: | |
| Members | \$ 2,309,269,955 |
| Employers | 6,908,072,723 |
| Other | 4,251,107 |
| Total contributions | 9,221,593,785 |
| Investment income: | |
| Net depreciation in fair value of investments | (222,910,491) |
| Interest | 1,566,005,559 |
| Dividends | 392,036,513 |
| | 1,735,131,581 |
| Less investment expense | 13,056,983 |
| Net investment income | 1,722,074,598 |
| Total additions | 10,943,668,383 |
| Deductions: | |
| Benefits | 13,923,519,412 |
| Refunds of contributions | 157,270,934 |
| Administrative and miscellaneous expenses | 46,498,279 |
| Total deductions | 14,127,288,625 |
| Change in net assets | (3,183,620,242) |
| Net assets held in trust for pension and health benefits: | |
| Beginning of year | 81,067,610,282 |
| End of year | \$ 77,883,990,040 |

The accompanying notes are an integral part of the financial statements.

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

Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds – Pension Trust and State Health Benefit Program Funds

Year Ended June 30, 2012

| | Alternate Benefit Long-term Disability Fund | Central Pension Fund | Consolidated Police and Firemen's Pension Fund | Deferred Compensation Plan | Defined Contribution Retirement Plan | Judicial Retirement System | Police and Firemen's Retirement System | Prison Officers' Pension Fund | Public Employees' Retirement System | State Police Retirement System | Supplemental Annuity Collective Trust | Teachers' Pension and Annuity Fund | State Health Benefit Program Fund State | State Health Benefit Program Fund Local | State Health Benefit Program Fund Education | Total |
|--|---|----------------------------|--|----------------------------------|---|----------------------------------|---|--|--|---|--|---|---|---|---|--------------------------|
| Additions: | | | | | | | | | | | | | | | | |
| Contributions: | | | | | | | | | | | | | | | | |
| Members | \$ - | \$ - | \$ - | \$ 178,243,724 | \$ - | \$ 2,476,205 | \$ 374,688,168 | \$ - | \$ 793,993,077 | \$ 23,233,207 | \$ 6,346,823 | \$ 685,608,357 | \$ 152,051,630 | \$ 43,109,391 | \$ 49,519,373 | \$ 2,309,269,955 |
| Employers | 3,323,165 | 168,000 | 193,183 | - | 487,559 | 6,061,953 | 842,084,854 | - | 997,437,885 | 13,578,328 | - | 323,100,685 | 1,691,931,065 | 932,727,716 | 2,096,978,330 | 6,908,072,723 |
| Other | - | 22,155 | 3,234,585 | - | - | - | - | 994,367 | - | - | - | - | - | - | - | 4,251,107 |
| Total contributions | <u>3,323,165</u> | <u>190,155</u> | <u>3,427,768</u> | <u>178,243,724</u> | <u>487,559</u> | <u>8,538,158</u> | <u>1,216,773,022</u> | <u>994,367</u> | <u>1,791,430,962</u> | <u>36,811,535</u> | <u>6,346,823</u> | <u>1,008,709,042</u> | <u>1,843,982,695</u> | <u>975,837,107</u> | <u>2,146,497,703</u> | <u>9,221,593,785</u> |
| Investment income: | | | | | | | | | | | | | | | | |
| Net appreciation (depreciation) | | | | | | | | | | | | | | | | |
| in fair value of investments | (156) | - | (7,849) | 9,688,428 | (29) | (690,294) | (167,607,023) | (3,095) | (37,727,048) | 3,328,478 | 2,432,656 | (32,213,203) | (23,086) | (20,975) | (67,295) | (222,910,491) |
| Interest | 4,288 | 119 | 12,882 | 2,796,491 | 794 | 4,386,655 | 434,578,261 | 15,406 | 548,086,658 | 36,281,421 | 6,637 | 538,363,291 | 209,428 | 391,077 | 872,151 | 1,566,005,559 |
| Dividends | - | - | - | 7,545,870 | - | 1,273,929 | 105,876,587 | - | 125,621,507 | 9,401,158 | 3,502,131 | 138,815,331 | - | - | - | 392,036,513 |
| | 4,132 | 119 | 5,033 | 20,030,789 | 765 | 4,970,290 | 372,847,825 | 12,311 | 635,981,117 | 49,011,424 | 5,941,424 | 644,965,419 | 186,342 | 370,102 | 804,856 | 1,735,131,581 |
| Less: investment expense | - | - | 4,823 | 196,104 | - | 16,076 | 1,351,653 | 2,366 | 7,407,519 | 95,312 | - | 3,983,130 | - | - | - | 13,056,983 |
| Net investment income | <u>4,132</u> | <u>119</u> | <u>210</u> | <u>19,834,685</u> | <u>765</u> | <u>4,954,214</u> | <u>371,496,172</u> | <u>9,945</u> | <u>628,573,598</u> | <u>48,915,745</u> | <u>5,941,424</u> | <u>640,982,289</u> | <u>186,342</u> | <u>370,102</u> | <u>804,856</u> | <u>1,722,074,598</u> |
| Total additions | <u>3,327,297</u> | <u>190,274</u> | <u>3,427,978</u> | <u>198,078,409</u> | <u>488,324</u> | <u>13,492,372</u> | <u>1,588,269,194</u> | <u>1,004,312</u> | <u>2,420,004,560</u> | <u>85,727,280</u> | <u>12,288,247</u> | <u>1,649,691,331</u> | <u>1,844,169,037</u> | <u>976,207,209</u> | <u>2,147,302,559</u> | <u>10,943,668,383</u> |
| Deductions: | | | | | | | | | | | | | | | | |
| Benefits | 3,323,165 | 189,481 | 5,046,645 | 118,211,742 | 85,280 | 45,955,546 | 1,862,401,613 | 1,950,804 | 2,900,539,904 | 163,065,369 | 17,890,338 | 3,538,617,490 | 1,957,384,329 | 979,913,607 | 2,328,944,099 | 13,923,519,412 |
| Refunds of contributions | - | 793 | - | - | - | 45,641 | 7,551,462 | - | 108,618,263 | 143,320 | - | 40,911,455 | - | - | - | 157,270,934 |
| Administrative and miscellaneous expenses | - | - | 14,152 | 465,127 | - | 159,888 | 3,919,438 | 6,922 | 21,841,723 | 298,961 | - | 11,523,397 | 3,100,752 | 1,513,167 | 3,654,752 | 46,498,279 |
| Total deductions | <u>3,323,165</u> | <u>190,274</u> | <u>5,060,797</u> | <u>118,676,869</u> | <u>85,280</u> | <u>46,161,075</u> | <u>1,873,872,513</u> | <u>1,957,726</u> | <u>3,030,999,890</u> | <u>163,507,650</u> | <u>17,890,338</u> | <u>3,591,052,342</u> | <u>1,960,485,081</u> | <u>981,426,774</u> | <u>2,332,598,851</u> | <u>14,127,288,625</u> |
| Net increase (decrease) | 4,132 | - | (1,632,819) | 79,401,540 | 403,044 | (32,668,703) | (285,603,319) | (953,414) | (610,995,330) | (77,780,370) | (5,602,091) | (1,941,361,011) | (116,316,044) | (5,219,565) | (185,296,292) | (3,183,620,242) |
| Net assets held in trust for pension and health benefits: | | | | | | | | | | | | | | | | |
| Beginning of year | <u>1,551,933</u> | <u>-</u> | <u>6,491,679</u> | <u>2,506,642,343</u> | <u>289,593</u> | <u>264,704,368</u> | <u>21,292,687,884</u> | <u>9,997,650</u> | <u>26,994,433,328</u> | <u>1,807,628,195</u> | <u>158,478,459</u> | <u>27,486,197,261</u> | <u>16,172,569</u> | <u>153,146,733</u> | <u>369,188,287</u> | <u>81,067,610,282</u> |
| End of year | <u>\$ 1,556,065</u> | <u>\$ -</u> | <u>\$ 4,858,860</u> | <u>\$ 2,586,043,883</u> | <u>\$ 692,637</u> | <u>\$ 232,035,665</u> | <u>\$ 21,007,084,565</u> | <u>\$ 9,044,236</u> | <u>\$ 26,383,437,998</u> | <u>\$ 1,729,847,825</u> | <u>\$ 152,876,368</u> | <u>\$ 25,544,836,250</u> | <u>\$ (100,143,475)</u> | <u>\$ 147,927,168</u> | <u>\$ 183,891,995</u> | <u>\$ 77,883,990,040</u> |

The accompanying notes are an integral part of the financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2012

(1) Description of the Funds

The State of New Jersey sponsors and administers the following benefit funds which have been included in the basic financial statements of the State of New Jersey Division of Pensions and Benefits (the Division), collectively referred to as the Funds, Systems, and Trust:

Fiduciary Funds

Pension Trust and State Health Benefit Program Funds

Judicial Retirement System (JRS)
Consolidated Police and Firemen's Pension Fund (CPFPPF)
Police and Firemen's Retirement System (PFRS)
Prison Officers' Pension Fund (POPF)
Public Employees' Retirement System (PERS)
State Police Retirement System (SPRS)
Teachers' Pension and Annuity Fund (TPAF)
Supplemental Annuity Collective Trust (SACT)
Central Pension Fund (CPF)
New Jersey State Employees Deferred Compensation Plan (NJSEDCP)
Defined Contribution Retirement Program (DCRP)
Alternate Benefit Long-Term Disability Fund (ABPLTD)
State Health Benefit Program Fund (SHBP) – State
State Health Benefit Program Fund (SHBP) – Local
State Health Benefit Program Fund (SHBP) – Education

Agency Funds

Pension Adjustment Fund (PAF)
Alternate Benefit Program Fund (ABP)
Dental Expense Program Fund (DEP)

Stand alone financial reports, which include the above funds except for ABPLTD, CPF, and DCRP have been prepared. These financial reports, which can be obtained from the Division of Pensions and Benefits, provide a description of the nature and purpose of each individual fund. A description of the contribution requirements and benefit provisions for each fund is provided in notes 5 and 6.

The pension trust funds are single-employer defined benefit pension plans, except for PERS and PFRS, which are cost-sharing multiple-employer defined benefit plans, TPAF and CPFPPF, which are cost-sharing defined benefit plans with a special funding situation, and SACT, NJSEDCP, DCRP, and ABPLTD which are single-employer defined contribution plans.

The Prescription Drug Program (PDP) of each respective SHBP are combined and reported as a trust fund with the respective SHBP – State, SHBP – Local and SHBP – Education plans. The SHBP – State is classified as a single-employer plan. The SHBP – Local and SHBP – Education are classified as cost-sharing multiple-employer plans.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2012

(2) Summary of Significant Accounting Policies

The financial statements of the Division have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The financial statements include all funds which are administered by the Division over which operating controls are with the individual funds, systems, or trust governing Boards and/or the State of New Jersey. The financial statements of the Funds, Systems, and Trust are included in the financial statements of the State of New Jersey; however, the accompanying financial statements are intended to present solely the funds listed above which are administered by the Division and not the State of New Jersey as a whole.

Fund Accounting

The accounts of the Division are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts.

Fiduciary Funds

Pension trust and State health benefit program funds – Account for monies received for, expenses incurred by and the net assets available for plan benefits of the various public employee retirement systems and health benefit programs.

Agency funds – Agency funds are used to account for the assets that the Division holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

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

The accrual basis of accounting is used for measuring financial position and changes in net assets of the pension trust and state health benefit program funds. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the pension trust funds conform to the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans*. The financial statements of the health benefit program funds conform to the provisions of the GASB Statement No. 43, *Other Post-Employment Benefits (OPEB)*. Employer contributions are recognized when payable to the Funds. Benefits and refunds are recognized when due and payable in accordance with the terms of the Funds.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2012

Capital Assets

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

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011, made various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS) and the Judicial Retirement System (JRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- For new members of TPAF and PERS hired on or after June 28, 2011 (Tier 5 members), the years of creditable service needed for early retirement benefits increased from 25 to 30 years, and the early retirement age increased from 55 to 65.
- The eligibility age to qualify for a service retirement in the TPAF and PERS increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), decreased from 65% of final compensation to 60% of final compensation after 25 years of service and from 70% of final compensation to 65% of final compensation after 30 or more years of service.
- This legislation increased active member contribution rates as follows: TPAF and PERS active member rates increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS and PERS Prosecutors Part active member rates increased from 8.5% to 10%; SPRS active member rates increased from 7.5% to 9%; and JRS active member rates increase from 3% to 12% phased-in over seven years for members hired or reappointed on or after June 28, 2011. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for TPAF, PERS and JRS members takes place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- This legislation set new employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to this legislation's effective date with a minimum contribution required to be at least 1.5% of salary.

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

Notes to Financial Statements

June 30, 2012

- In addition, this legislation changed the method for amortizing the pension systems' unfunded accrued liability from a level percent of pay method to a level dollar of pay method.

Membership and Contributing Employers

Membership and contributing employers of the pension trust funds consisted of the following at July 1, 2011, the date of the most recent actuarial valuations. Membership of the health benefit program funds for OPEB is based on the valuation dated July 1, 2011, and its participating employer count is from the Division's data base as of June 30, 2012. Member counts of SACT, CPF, NJSEDCP, and ABPLTD are based on the Division's data base as of June 30, 2012:

| | JRS | CPFPF | PFRS | POPF | PERS | SPRS |
|---|------------|--------------|---------------|-------------|----------------|--------------|
| Retiree members: | | | | | | |
| Retirees and beneficiaries | | | | | | |
| receiving benefits currently | 522 | 310 | 38,036 | 142 | 148,085 | 2,818 |
| Terminated employees | | | | | | |
| entitled to benefits but not yet receiving them | 3 | — | 55 | — | 1,133 | — |
| Total retiree members | 525 | 310 | 38,091 | 142 | 149,218 | 2,818 |
| Active members: | | | | | | |
| Vested | 194 | — | 28,817 | — | 149,719 | 1,825 |
| Nonvested | 212 | — | 13,182 | — | 142,107 | 1,019 |
| Total active members | 406 | — | 41,999 | — | 291,826 | 2,844 |
| Total | 931 | 310 | 80,090 | 142 | 441,044 | 5,662 |
| Contributing employers | 1 | 69 | 586 | 1 | 1,706 | 1 |

| | TPAF | SACT | CPF | NJSEDCP | ABPLTD | SHBP |
|---|----------------|--------------|------------|----------------|---------------|----------------|
| Retiree members: | | | | | | |
| Retirees and beneficiaries | | | | | | |
| receiving benefits currently | 85,912 | 454 | 9 | 4,903 | — | 205,487 |
| Terminated employees | | | | | | |
| entitled to benefits but not yet receiving them | 420 | — | — | — | — | — |
| Total retiree members | 86,332 | 454 | 9 | 4,903 | — | 205,487 |
| Active members: | | | | | | |
| Vested | 83,178 | 3,104 | — | 40,232 | 153 | 389,609 |
| Nonvested | 67,937 | — | — | — | — | — |
| Total active members | 151,115 | 3,104 | — | 40,232 | 153 | 389,609 |
| Total | 237,447 | 3,558 | 9 | 45,135 | 153 | 595,096 |
| Contributing employers | 29 | — | 1 | — | 1 | 567 |

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

Notes to Financial Statements

June 30, 2012

Membership in the agency funds administered by the Division consisted of the following as of June 30, 2012:

| | State | Local | Total |
|--|--------------|--------------|--------------|
| Dental Expense Program Fund* | 116,691 | 53,326 | 170,017 |
| Alternate Benefit Program Fund** | 19,204 | 3,021 | 22,225 |
| Pension Adjustment Fund | 120,315 | 113,236 | 233,551 |
| * Active and retired participants | | | |
| ** Including those receiving long-term disability benefits | | | |

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, CPFPP, SPRS and POPF) and two defined contribution plans (SACT and NJSEDCP). 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 and a SACT 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 international equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real estate, 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.

Prudential Retirement is the third-party administrator for the NJSEDCP. Prudential Retirement provides recordkeeping, administration services and access to 23 investments through a combination of their separate account product offerings and retail branded mutual funds. The four state-managed investments options (DCP Bond Fund, DCP Equity Fund, DCP Small Cap Equity Fund and DCP Money Market Fund) are closed to new investments. The Division of Investment is the fiduciary for the investments of the Plan. The Division of Pensions and Benefits maintains its administrative oversight functions for the Plan.

Investments are reported at fair value as follows:

- U.S. Government and Agency, Sovereign and Corporate obligations – prices quoted by a major dealer in such securities.
- Police and Firemen's mortgages – estimated market prices obtained from independent brokers.
- Domestic and Foreign Equity Securities, Exchanged Traded Funds, Forward Foreign Exchange Contracts – closing prices as reported on the primary market or exchange on which they trade.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2012

- 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, real asset, and absolute return strategy funds) – Fair values for the individual funds are based upon the net asset values for the funds at the closest available reporting date, adjusted for subsequent contributions, distributions, management fees and reserves. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment. The most significant input into the net asset value of an entity is the value of its investment holdings. The net asset value is provided by the general partner and/or investment manager and reviewed by management. The net asset values are audited annually. The strategy of private equity and real estate funds are long term and illiquid in nature which can prevent the investment from being readily marketable. Hedge funds may be subject to redemption restrictions which can limit distributions and restrict the ability of a limited partner to exit a partnership. For alternative investments, the realized value received upon the sale of these investments in the open market might be different than the fair value reported in the accompanying 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.

Securities Lending

The State Investment Council policies permit Common Funds A, B, D and E 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 public traded securities held in Common Funds A, B, D and E, 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. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

Effective December 2010, for loans of U.S. government securities or sovereign debt issued by non-U.S. governments, in the event that the market value of the collateral falls below 100% of the market value of the outstanding loaned securities to an individual borrower, or the market value of the collateral of all loans of such securities falls below the collateral requirement, 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 together with collateral previously delivered meets the collateral requirements.

For loans of all other types of securities, 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. As of June 30, 2012, the

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2012

Common Funds have no aggregate credit risk exposure to borrowers 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 and provides that collateral securities may be sold in the event of a borrower default. The Common Funds are also indemnified for any loss of principal or interest on collateral invested in repurchase agreements. The Common Funds cannot participate in any dividend reinvestment program or vote with respect to any securities that are on loan on the applicable record date. 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 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 currency risks in the Common Funds' foreign equity and fixed income portfolios.

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.

The fair value of foreign forward currency contracts held directly by the Common Funds as of June 30, 2012 was as follows:

| | |
|-----------------------------|----------------------------|
| Forward currency receivable | \$ 423,267,019 |
| Forward currency payable | <u>420,869,210</u> |
| Net unrealized gain | <u><u>\$ 2,397,809</u></u> |

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 its writes (or sells) call options on underlying stocks held by the Common Funds or stock indices. The Common Funds enter into covered put options when it purchases put options on underlying stocks held by the Common Funds or stock indices. The Common Fund enters into put spreads when it purchases put options while simultaneously writing put options on the same underlying securities of indices at a lower strike price. 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 may bear the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option.

The Fund had written call options on 7,000,000 shares, and these options had a fair value of \$5,570,000 at June 30, 2012. The Fund owned 12,100 put option contracts with a fair value of \$696,600 at June 30, 2012.

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Certain of the 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.

Members' Loans

Members of JRS, PFRS, SPRS, PERS and TPAF who have at least three years of service in these Funds may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears a commercially reasonable interest rate as set by the State Treasurer. For 2012 the interest rate is 5.25%, and there is an \$8 processing fee per loan. 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.

Administrative Expenses

Administrative expenses are paid by the Funds and the Systems to the State of New Jersey, Department of the Treasury and are included in the accompanying financial statements.

In certain funds (PFRS, PERS, SPRS and TPAF) miscellaneous expenses and reimbursements from the fund that comprise various adjustments to member and employer accounts are incorporated into the administrative expense amounts included in the accompanying financial statements. These miscellaneous items are not part of the supplementary information included in the Schedule of Administrative Expenses (Schedule 3). Additionally, State Health Benefit Program Fund – State, Local and Education administrative expenses are included in administrative expenses in the accompanying financial statements but are not included in the supplementary information in Schedule 3.

Income Tax Status

Based on Internal Revenue Service (IRS) determination letters received in January 2012 for TPAF, PERS, POPF, JRS, and SPRS and in June 2012 for PFRS and CPFPPF, the seven pension funds comply with the qualification requirements of the Internal Revenue Code (IRC). The ABP received a determination letter that it complies with the qualification requirements of the IRC in September 2012.

The NJSEDCP is an eligible plan as described in Section 457 of the IRC.

Commitments

The Common Funds are obligated, under certain private equity, real estate and absolute return strategy alternative investment agreements to make additional capital contributions up to contractual levels over the investment period specified for each investment. As of June 30, 2012, the Common Funds had unfunded commitments totaling approximately \$7.6 billion.

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Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

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 revised July 1, 2011 actuarial valuations, the projected unit credit was used as actuarial cost method, and the five year average of market value was used as asset valuation method for pension trust funds. The actuarial assumptions included (a) 7.95% for investment rate of return for all the retirement systems except POPF (5.00%) and CPFPPF (2.00%) and (b) changes to projected salary increases, which vary by fund and are presented on the following pages.

OPEB used the projected unit credit as actuarial cost method. The actuarial assumptions for OPEB included 4.50% for investment rate of return.

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A summary of the significant actuarial methods and assumptions used by the Funds and Systems as of the most recent actuarial date of July 1, 2011 are as follows:

| | JRS | CPFPF | PFRS - State | PFRS - Local | POPF |
|-------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------|
| | July 1, 2011 | July 1, 2011 | July 1, 2011 | July 1, 2011 | July 1, 2011 |
| Actuarial valuation date | July 1, 2011 | July 1, 2011 | July 1, 2011 | July 1, 2011 | July 1, 2011 |
| Actuarial value of assets | \$ 305,245,844 | \$ 8,126,894 | \$ 2,143,492,414 | \$ 21,027,839,958 | \$ 9,997,650 |
| Actuarial accrued liability | 585,700,787 | 9,179,981 | 3,926,525,679 | 26,978,632,188 | 5,096,792 |
| Unfunded (overfunded) | | | | | |
| actuarial accrued liability | 280,454,943 | 1,053,087 | 1,783,033,265 | 5,950,792,230 | (4,900,858) |
| Funded ratio | 52.1% | 88.5% | 54.6% | 77.9% | 196.2% |
| Covered payroll | \$ 67,437,125 | N/A | \$ 526,058,270 | \$ 3,123,358,027 | N/A |
| Unfunded (overfunded) | | | | | |
| actuarial accrued liability | | | | | |
| as a percentage of | | | | | |
| covered payroll | 415.9% | N/A | 338.9% | 190.5% | N/A |
| Actuarial cost method | Projected unit credit | Projected unit credit | Projected unit credit | Projected unit credit | Projected unit credit |
| Asset valuation method | 5 year average of market value | Market value |
| Amortization method | Level dollar, open | Level dollar, closed | Level dollar, open | Level dollar, open | Level dollar, closed |
| Remaining amortization period | 30 years | 1 year | 30 years | 30 years | 1 year |
| Actuarial assumptions: | | | | | |
| Interest rate | 7.95% | 2.00% | 7.95% | 7.95% | 5.00% |
| Salary range | 2.50% | N/A | 6.32% | 6.32% | N/A |
| Cost-of-living adjustments | 0.00% | N/A | 0.00% | 0.00% | N/A |

| | PERS - State | PERS - Local | SPRS | TPAF |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | July 1, 2011 | July 1, 2011 | July 1, 2011 | July 1, 2011 |
| Actuarial valuation date | July 1, 2011 | July 1, 2011 | July 1, 2011 | July 1, 2011 |
| Actuarial value of assets | \$ 9,938,069,705 | \$ 18,996,299,489 | \$ 2,002,813,881 | \$ 32,289,888,420 |
| Actuarial accrued liability | 18,290,829,021 | 24,679,095,575 | 2,581,950,846 | 51,406,540,290 |
| Unfunded (overfunded) accrued liability | 8,352,759,316 | 5,682,796,086 | 579,136,965 | 19,116,651,870 |
| Funded ratio | 54.3% | 77.0% | 77.6% | 62.8% |
| Covered payroll | \$ 4,608,926,826 | \$ 7,000,115,900 | \$ 275,219,752 | \$ 9,682,318,739 |
| Unfunded (overfunded) actuarial accrued liability | | | | |
| as a percentage of covered payroll | 181.2% | 81.2% | 210.4% | 197.4% |
| Actuarial cost method | Projected unit credit | Projected unit credit | Projected unit credit | Projected unit credit |
| Asset valuation method | 5 year average of market value |
| Amortization method | Level dollar, open | Level dollar, open | Level dollar, open | Level dollar, open |
| Remaining amortization period | 30 years | 30 years | 30 years | 30 years |
| Actuarial assumptions: | | | | |
| Interest rate | 7.95% | 7.95% | 7.95% | 7.95% |
| Salary range | 4.52% | 4.52% | 3.45% | 3.90% |
| Cost-of-living adjustments | 0.00% | 0.00% | 0.00% | 0.00% |

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| | SHBP - State | SHBP - Local | SHBP - Education |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Actuarial valuation date | July 1, 2011 | July 1, 2011 | July 1, 2011 |
| Actuarial value of assets | \$ — | \$ — | \$ — |
| Actuarial accrued liability | 18,077,800,000 | 11,127,000,000 | 30,871,900,000 |
| Unfunded (overfunded) actuarial accrued liability | 18,077,800,000 | 11,127,000,000 | 30,871,900,000 |
| Funded ratio | — | — | — |
| Covered payroll | \$ 7,491,835,889 | \$ 2,831,000,000 | \$ 12,794,864,111 |
| Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll | 241.3% | 393.0% | 241.3% |
| Actuarial cost method | Projected unit credit | Projected unit credit | Projected unit credit |
| Amortization method | Level dollar, open | Level dollar, open | Level dollar, open |
| Remaining amortization period | 30 years | 30 years | 30 years |
| Actuarial assumptions: | | | |
| Interest rate | 4.50% (assuming no prefunding) | 4.50% (assuming no prefunding) | 4.50% (assuming no prefunding) |
| Salary range | N/A | N/A | N/A |
| Cost-of-living adjustments | N/A | N/A | N/A |

For medical benefits, the healthcare cost trend rate assumption initially is at 8.0% or 9.0% (depending on the medical plan) and decreases to a 5.0% long-term trend rate for all medical benefits after 6 or 8 years. For prescription drug benefits, the initial healthcare cost trend rate assumption is 9.0% or 9.5% (depending on the retirement status), decreasing to a 5.0% long-term trend rate after 8 or 9 years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 5.0% throughout 11 years.

(3) Investments

The pension funds' investments as of June 30, 2012 are as follows:

| | |
|--|--------------------------|
| Cash management funds | \$ 1,819,213,177 |
| Domestic equities | 19,635,932,288 |
| International equities | 13,943,748,903 |
| Domestic fixed income | 15,012,944,491 |
| International fixed income* | 2,877,198,257 |
| Bank loan funds | 1,364,990,293 |
| Police and Firemen's mortgages | 963,899,029 |
| Private equity funds | 5,488,969,238 |
| Real estate funds | 3,106,708,016 |
| Absolute return strategy funds | 5,547,000,728 |
| Real assets | 1,448,241,708 |
| Put options | 696,600 |
| U.S. government and agency obligations | 371,746,092 |
| Other fixed income securities | 779,384,678 |
| Other | 1,697,125,885 |
| | \$ 74,057,799,383 |

* US dollar denominated securities

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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 options, put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies, bank loans, interest rate swap transactions, credit default swaps, fixed income exchange traded funds, U.S. Treasury futures contracts, 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 funds, real estate funds, other real assets, 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.

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

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, the pension funds will not be able to recover the value of investments 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.

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments 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.

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These credit ratings and limits are as follows:

| Category | Minimum rating (1) | | | Limitation of issuer's outstanding debt/stock | Limitation of issue | Other limitations |
|--|--------------------|---------|--------|---|--------------------------------|--|
| | Moody's | S&P | Fitch | | | |
| Bank loans | Baa3 | BBB- | BBB- | 10% | — | Not more than 10% of fund assets can be invested in this category |
| 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 | — | — | |
| 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 Common Fund B assets) can be invested in this category |
| Commercial paper | P-1 | A-1 | F1 | — | — | — |
| Corporate obligations | Baa3 | BBB- | BBB- | 10% | 25% | Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of one issuer |
| Credit default swap transactions | A1 | A+ | A+ | — | — | Nominal value of net exposure to any one counterparty shall not exceed 10% of fund assets |
| Guaranteed income contracts and funding agreements | A3 | A- | A- | — | — | — |
| Interest rate swap transactions | A1 | A+ | A+ | — | — | Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets |
| International corporate obligations | Baa3 | BBB- | BBB- | 10% | 25% | Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of any one issuer; not more than 10% of fund assets can be invested in this category |
| International government and agency obligations | Baa3 | BBB- | BBB- | 25% | Greater of 25% or \$10 million | — |

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| Category | Minimum rating (1) | | | outstanding debt | Limitation of issue | Other limitations |
|---|--------------------|------|-------|------------------|---------------------|--|
| | Moody's | S&P | Fitch | | | |
| 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 |
| 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 |
| Non-convertible preferred stocks of US corporations | Baa3 | BBB- | BBB- | 10% | 25% | Not more than 5% of fund assets can be invested in debt and non-convertible stock of any one corporation |
| Public authority revenue obligations | A3 | A- | A- | — | 10% | Not more than 2% of fund assets can be invested in any one public authority |
| Repurchase agreements | Aa3 | AA- | AA- | — | — | — |
| State & municipal obligations | A3 | A- | A- | 10% | 10% | Not more than 2% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase |

(1) Short term ratings (e.g. P-1, A-1, F1) are used for commercial paper and certificates of deposit.

Up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage-backed pass-through securities that do not meet the minimum credit rating requirements set forth above.

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For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category as of June 30, 2012. The first table includes fixed income securities rated by Moody's. The second table discloses S&P and Fitch ratings for fixed income securities not rated by Moody's.

| (In thousands) | Moody's rating (1) | | | | | | | | | | Totals |
|-------------------------------------|---------------------|------------------|------------------|------------------|----------------|----------------|------------|----------------|-----------|----------------|----------------------|
| | Aaa | Aa | A | Baa | Ba | B | Ca | Caa | P-1 | Unrated | |
| Corporate obligations | \$ 857,119 | 957,096 | 3,388,551 | 3,818,700 | 351,083 | 487,079 | 835 | 171,336 | — | 7,915 | \$ 10,039,714 |
| United States treasury tips | 1,821,469 | — | — | — | — | — | — | — | — | — | 1,821,469 |
| United States treasury bonds | 1,000,470 | — | — | — | — | — | — | — | — | — | 1,000,470 |
| Foreign government obligations | 618,145 | 1,431,403 | 54,136 | — | — | — | — | — | — | — | 2,103,684 |
| International corporate obligations | 10,468 | — | 370,672 | 275,231 | 39,035 | 36,056 | — | 12,450 | — | — | 743,912 |
| Mortgages (FHLMC/FNMA/GNMA) | 359,681 | — | — | — | — | — | — | — | — | — | 359,681 |
| United States government strips | 583,671 | — | — | — | — | — | — | — | — | — | 583,671 |
| Federal agency obligations | 289,076 | 5,350 | 4,839 | — | — | — | — | — | — | 13 | 299,278 |
| SBA pass through certificates | 158,841 | — | — | — | — | — | — | — | — | — | 158,841 |
| Asset backed obligations | 16,628 | — | — | — | — | — | — | — | — | — | 16,628 |
| Other | 94,370 | 813,743 | 244,900 | 20,097 | 1,238 | — | — | — | 43 | 130,137 | 1,304,528 |
| | <u>\$ 5,809,938</u> | <u>3,207,592</u> | <u>4,063,098</u> | <u>4,114,028</u> | <u>391,356</u> | <u>523,135</u> | <u>835</u> | <u>183,786</u> | <u>43</u> | <u>138,065</u> | <u>\$ 18,431,876</u> |

(1) Subsequent to the June 30, 2011, Standard & Poor's downgraded the United States credit rating to AA+ from its top rank of AAA, for the first time in history.

| (In thousands) | Standard & Poor's | | | | | | Totals | |
|-------------------------------------|-------------------|----------------|---------------|---------------|------------|---------------|--------------|-------------------|
| | A | AA | AAA | B | BB | BBB | | CCC |
| Corporate obligations | \$ 164,813 | 86,598 | — | 12,749 | 200 | 92,569 | 5,165 | \$ 362,094 |
| International corporate obligations | — | 18,091 | — | 360 | — | — | — | 18,451 |
| Other | 17,653 | 53,759 | 56,587 | — | — | — | — | 127,999 |
| | <u>\$ 182,466</u> | <u>158,448</u> | <u>56,587</u> | <u>13,109</u> | <u>200</u> | <u>92,569</u> | <u>5,165</u> | <u>\$ 508,544</u> |

The above tables do not include certain domestic and international corporate obligations including certain exchange traded funds (ETFs) totaling \$100,854,257 which invest in an underlying portfolio of fixed income securities and do not have a Moody's, Standard & Poor's or Fitch rating. The above tables also do not include other fixed income securities totaling \$137,755,123, Police and Firemen's mortgages totaling \$963,899,029 and the Cash Management Fund totaling \$1,819,213,177, which are not rated.

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. Repurchase agreement must mature within 30 days. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

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The following table summarizes 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 as of June 30, 2012:

| (In thousands) | Maturities in years | | | | | Total fair value |
|--|------------------------------|------------------|------------------|-------------------|----------------|----------------------|
| | Fixed income investment type | Less than 1 | 1-5 | 6-10 | More than 10 | |
| Corporate obligations | \$ 31,984 | 937,849 | 3,889,721 | 5,580,517 | — | \$ 10,440,071 |
| United States treasury inflation index notes | — | 56,123 | 249,061 | 1,516,285 | — | 1,821,469 |
| United States treasury bonds | 10,334 | 175,763 | 93,492 | 720,881 | — | 1,000,470 |
| Foreign government obligations | — | 156,880 | 1,136,294 | 828,601 | — | 2,121,775 |
| Police & firemen's mortgage program | 43 | 1,962 | 6,556 | 955,338 | — | 963,899 |
| International corporate obligations | — | 44,736 | 265,402 | 445,286 | — | 755,424 |
| Mortgages (FHLMC/FNMA/GNMA) | 9 | 2,505 | — | 357,167 | — | 359,681 |
| United States government strips | — | — | — | 583,671 | — | 583,671 |
| Federal agency obligations | 389 | 12,896 | 190,266 | 95,728 | — | 299,279 |
| Asset backed obligations | — | — | 16,628 | 51,441 | — | 68,069 |
| SBA pass through certificates | — | 5,461 | 153,380 | — | — | 158,841 |
| Other | (5,116) | 28,262 | 26,433 | 1,249,270 | 133,677 | 1,432,526 |
| | <u>\$ 37,643</u> | <u>1,422,437</u> | <u>6,027,233</u> | <u>12,384,185</u> | <u>133,677</u> | <u>\$ 20,005,175</u> |

The pension funds invest in global markets. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government, agency and corporate obligations, cannot exceed 30% of the market value of the pension funds. 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. 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 contract receivables totaling approximately \$423.3 million and payables totaling approximately \$420.9 million (with a \$2.4 million net gain) as of June 30, 2012. At June 30, 2012, the credit ratings of the counterparties to the forward currency contracts had Moody's credit ratings of no less than A3.

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The pension funds had the following foreign currency exposure as of June 30, 2012 (expressed in U.S. dollars):

| <u>Currency</u> | <u>Equities</u> | <u>Alternative investments</u> | <u>Total fair value</u> |
|-----------------------|-------------------------|------------------------------------|-----------------------------|
| Australian dollar | \$ 404,954,100 | — | \$ 404,954,100 |
| Brazilian real | 172,762,675 | — | 172,762,675 |
| Canadian dollar | 991,983,602 | — | 991,983,602 |
| Czech koruna | 2,569,245 | — | 2,569,245 |
| Danish krone | 98,951,145 | — | 98,951,145 |
| Egyptian pound | 20,429,588 | — | 20,429,588 |
| Euro | 1,683,268,961 | 360,483,508 | 2,043,752,469 |
| Hong Kong dollar | 539,735,532 | — | 539,735,532 |
| Hungarian forint | 18,229,565 | — | 18,229,565 |
| Indonesian rupiah | 78,369,584 | — | 78,369,584 |
| Israeli shekel | 7,460,574 | — | 7,460,574 |
| Japanese yen | 1,987,321,673 | — | 1,987,321,673 |
| Malaysian ringgit | 37,963,637 | — | 37,963,637 |
| Mexican peso | 43,985,670 | — | 43,985,670 |
| New Russian ruble | 9,029 | — | 9,029 |
| New Taiwan dollar | 13,881,976 | — | 13,881,976 |
| Norwegian krone | 107,943,230 | — | 107,943,230 |
| Pakistan rupee | 7,436,961 | — | 7,436,961 |
| Philippine peso | 29,410,532 | — | 29,410,532 |
| Polish zloty | 19,937,010 | — | 19,937,010 |
| Pound sterling (U.K.) | 1,281,290,826 | 12,365,673 | 1,293,656,499 |
| Singapore dollar | 219,170,282 | — | 219,170,282 |
| South African rand | 148,253,090 | — | 148,253,090 |
| South Korean won | 303,591,860 | — | 303,591,860 |
| Swedish krona | 358,068,695 | — | 358,068,695 |
| Swiss franc | 716,172,117 | — | 716,172,117 |
| Thailand baht | 66,034,370 | — | 66,034,370 |
| Turkish lira | 78,725,503 | — | 78,725,503 |
| US dollar | 235,152,888 | — | 235,152,888 |
| Unknown | 1,481,257 | — | 1,481,257 |
| | <u>\$ 9,674,545,177</u> | <u>372,849,181</u> | <u>\$ 10,047,394,358</u> |

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, speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Effective April 18, 2011, Council regulations provide that not more than 38% of the market value of the pension funds can be invested in alternative investments, with limits on the individual investment categories of real estate (9%), real assets (7%), private equity (12%) and absolute return strategy (15%). Prior to that, the overall limitation was 28% with a 7% limit on each of the individual categories. Not more than 5% of the market value of Common Fund E, plus

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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.

At June 30, 2012, Other Receivables included \$299 million related to the secondary sale of certain private equity funds which is due from the purchasers in December 2013.

(4) Securities Lending Collateral

The securities lending collateral is subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, and interest rate risk. The pension funds did not lend securities from July through December 2010. As of December 2010, securities lending collateral is invested in repurchase agreements, the maturities of which cannot exceed 30 days. 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 consistent with internal policies for funds managed by the Division of Investment.

For securities exposed to credit risk in the collateral portfolio, the following table discloses aggregate fair value, by major credit quality rating category as of June 30, 2012.

| (In thousands) | Rating | | |
|-----------------------|--------------|-----------|-----------|
| | Aaa/AAA | Not rated | Totals |
| Repurchase agreements | \$ 1,203,274 | — | 1,203,274 |
| Cash | — | 3,889 | 3,889 |
| Totals | \$ 1,203,274 | 3,889 | 1,207,163 |

Custodial credit risk for investments is the risk that in the failure of the counterparty to the transaction, the pension funds will not recover the value of the investments that are in the possession of an outside party. The repurchase agreement's underlying securities are held in the pension funds' name.

As of June 30, 2012, the pension funds had outstanding loaned investment securities with an aggregate market value of \$1,202,238,220 and did not hold any non-cash collateral. There were no borrowers or lending agent default losses, and no recoveries or prior period losses during the year.

(5) Contributions

Contribution Requirements – JRS

The contribution policy is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members enrolled on January 1, 1996 or after, contribute at 3% on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on 3% of the difference between their current salary and the salary of the position on January 18, 1982. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate will be increased from 3% to 12%, phased-in over seven years for members hired or reappointed after June 28, 2011. For fiscal year 2012, the member contribution rate for new members increased in October 2011. The phase-in of the additional incremental

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member contribution rate will take place in July of each subsequent fiscal year. The State of New Jersey contribution amount is based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments and non-contributory death benefits.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made a contribution of \$5.5 million, excluding the State's contribution of non-contributory group life insurance (NCGI) of \$0.5 million, for fiscal year 2012. The amount contributed for fiscal year 2012 is equal to 12.9% of the actuarially determined statutory amount of Annual Required Contribution (ARC) and equal to 14.3% if the budgetary recommended contribution amount.

Contribution Requirements – CPFPPF

There are no active members in the CPFPPF.

The State made a contribution of \$0.2 million. Local employers contributed \$19.2 thousand representing administrative fees billed to various locations in fiscal year 2012.

Contribution Requirements – PFRS

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and non-contributory death benefits. Members contribute at a uniform rate of 8.5% of base salary. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 8.5% to 10% in October 2011.

Chapter 19, P.L. 2009, effective March 17, 2009, provided an option for local employers to contribute 50% of the normal and accrued liability contribution amounts certified by PFRS for payments due in State fiscal year 2009. This law also provided that a local employer may pay 100% of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries for PFRS will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the State fiscal year ending June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made this contribution of \$53.6 million which is equal to 12.9% of the actuarially determined amount of the ARC and 14.3% if the budgetary recommended amount. Also, the State contributed \$5.6 million for NCGI and \$0.3 million for miscellaneous items due to the system.

The local employers' contribution amounts include the billing for their pension, NCGI, Early Retirement Incentive (ERI) contributions for those who participate in the various ERI programs, and other miscellaneous items that are due to the system. For fiscal year 2012, the amount accrued for the annual appropriation billings due April 1, 2013 is \$781.2 million.

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Contribution Requirements – POPF

There are no active members in the POPF. Accordingly, based on actuarial valuation, there is no normal cost or accrued liability contribution required by employers for fiscal year 2012.

Contribution Requirements – PERS

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. The full normal employee contribution rate became 5.5% of annual compensation, effective July 1, 2007 for most PERS state employees and effective July 1, 2008 for PERS local employees, based on Chapter 103, P.L. 2007. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) is 8.5% of base salary effective July 1, 2008. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in fiscal year 2013. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. For fiscal year 2012, the member contribution rate increased in October 2011. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year. Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and non-contributory death benefits.

Chapter 19, P.L. 2009, effective March 17, 2009, provided an option for local employers to contribute 50% of the normal and accrued liability contribution amounts certified by PERS for payments due in State fiscal year 2009. This law also provided that a local employer may pay 100% of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries for PERS will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the State fiscal year ending June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made this contribution of \$124.9 million which is equal to 12.8% of the actuarially determined amount of the ARC and 14.3% of the budgetary recommended amount. Also, the State contributed \$29.8 million for NCGI, \$1.8 million for miscellaneous items due to the system, and \$53.0 million for the current year present value of the State's ERI liability.

The local employers' contribution amounts include the billing for their pension, NCGI, Early Retirement Incentive (ERI) contributions for those who participate in the various ERI programs, and other miscellaneous items that are due to the system. For fiscal year 2012, the amount accrued for the annual appropriation billings due April 1, 2013 is \$784.7 million.

Contribution Requirements – SPRS

The contribution policy is set by N.J.S.A. 53:5A and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate of 7.5% of base salary. Pursuant to the provisions of

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Chapter 78, P.L. 2011, the active member contribution rate increased from 7.5% to 9% in October 2011. The State of New Jersey contribution amount is based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments and non-contributory death benefits.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made a contribution of \$12.8 million, excluding the State's contribution of NCGI of \$0.7 million, for fiscal year 2012. The amount contributed for fiscal year 2012 is equal to 13.0% of the actuarially determined statutory amount of ARC and equal to 14.3% of the budgetary recommended contribution amount.

Contribution Requirements – TPAF

The contribution policy is set by N.J.S.A. 18A: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. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in fiscal year 2013. For fiscal year 2012, the member contribution rate increased in October 2011. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year. The State of New Jersey contribution amount is based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and non-contributory death benefits.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made this contribution of \$287.5 million which is equal to 12.7% of the actuarially determined amount of the ARC and 14.3% of the budgetary recommended amount. Also, the State contributed \$30.8 million for NCGI, \$2.8 million for miscellaneous items due to the system, and \$2.0 million for the current year present value of the State's ERI liability.

Contribution Requirements – SACT

Participants contribute through payroll deductions and may contribute from 1% to 100% of their base salary, as defined. Contributions are voluntary and may be suspended at the beginning of any quarter. Contributions under the Tax Sheltered Supplemental Annuity Plan are subject to Federal law limitations and qualify for tax-sheltered treatment permitted under Section 403(b) of the Internal Revenue Code. Participants are always fully vested for the accumulated units in their accounts.

Contribution Requirements – CPF

The State of New Jersey makes an annual appropriation payment to the CPF to pay current year benefits. The contribution requirements were established by the aforementioned statutes and are not actuarially determined.

The contribution amount required and paid by the State of New Jersey for the fiscal year ended June 30, 2012 was \$168.0 thousand.

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Contribution Requirements – SHBP – State (including PDP – State)

Contributions to pay for the health premiums of participating employees in the SHBP – State are collected from the State of New Jersey, active and retired members, and former active and retired members who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to the SHBP on a monthly basis. Active and retired member contributions are generally received on a monthly basis. Certain State employees share in the cost of their premiums, as provided by Chapter 8, P.L. 1996.

Under the provisions of Chapter 8, P.L. 1996, the SHBP implemented premium sharing for employees covered under the State component of the program. Chapter 8 authorizes the State to negotiate premium sharing in the collective bargaining agreements governing employment of State employees. Premium sharing also applies to retired group coverage for employees who attain 25 years of creditable pension service after July 1, 1997 or who retire on a disability retirement after that same date. Those employees not represented by any bargaining unit premium share in accordance with rules established by the State Health Benefits Commission.

Contributions to pay for the premiums of participating employees in the PDP are collected from the State of New Jersey, and former active and retired members who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are distributed to the PDP on a monthly basis.

The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical (PRM) benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

The State made a contribution of \$1.7 billion, including administrative revenue of \$3.8 million, for fiscal year 2012.

Chapter 103, P.L. 2007 implemented changes to SHBP and established an employee contribution of 1.5% of the employee's base salary for State employees, effective July 1, 2007.

Chapter 2, P.L. 2010, effective May 21, 2010, requires a minimum contribution of 1.5% of base salary toward the cost of health care benefits coverage by all active public employees. Employees of the State, local governments, and boards of education who become a member of a State or locally-administered retirement system on or after the law's effective date would be required to pay in retirement 1.5% of their pension benefit toward the cost of health care coverage under the SHBP.

Chapter 78, P.L. 2011, effective June 28, 2011, established new employee contribution requirements towards the cost of employer provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011, the 4-year phase-in does not apply, and contributions based on the full percentage rate of contribution are required. Under Chapter 78, certain future retirees eligible for employer-paid health care coverage at retirement are also required to pay a percentage of the cost of their medical coverage determined on the basis of their annual retirement benefit.

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Contribution Requirements – SHBP – Local (including PDP – Local)

Contributions to pay for the health premiums of participating employees in the SHBP – Local are collected from the State of New Jersey, participating local employers, active members and retired members. Local employer payments and active and retired member contributions are generally received on a monthly basis.

Local group employees are not affected by the premium sharing provisions of Chapter 8, P.L. 1996.

Contributions to pay for the premiums of participating employees in the PDP are collected from participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Local employers participating in the SHBP – Local made a contribution of \$932.7 million, including administrative revenue of \$2.0 million, for fiscal year 2012.

State of New Jersey contribution to the SHBP – Local is to fund the cost of medical premiums after retirement for qualified retirees in the PFRS. In accordance with Chapter 62, P.L. 1994, post-retirement medical (PRM) benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Chapter 2, P.L. 2010, effective May 21, 2010, requires a minimum contribution of 1.5% of base salary toward the cost of health care benefits coverage by all active public employees. Employees of the State, local governments, and boards of education who become a member of a State or locally-administered retirement system on or after the law's effective date would be required to pay in retirement 1.5% of their pension benefit toward the cost of health care coverage under the SHBP.

Chapter 78, P.L. 2011, effective June 28, 2011, established new employee contribution requirements towards the cost of employer provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011, the 4-year phase-in does not apply, and contributions based on the full percentage rate of contribution are required. Under Chapter 78, certain future retirees eligible for employer-paid health care coverage at retirement are also required to pay a percentage of the cost of their medical coverage determined on the basis of their annual retirement benefit.

Contribution Requirements – SHBP – Education (including PDP – Education)

Contributions to pay for the health premiums of participating employees in the SHBP – Education are collected from the State of New Jersey, participating local employers, active members and retired members. Local employer payments and active and retired member contributions are generally received on a monthly basis.

Local group employees are not affected by the premium sharing provisions of Chapter 8, P.L. 1996.

Contributions to pay for the premiums of participating employees in the PDP are collected from participating local employers, and former active and retired members who have elected to participate under

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the rules of COBRA. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Local employers participating in the SHBP – Education made a contribution of \$2.1 billion, including administrative revenue of \$4.8 million, for fiscal year 2012.

State of New Jersey contribution to the SHBP – Education is to fund the cost of medical premiums after retirement for qualified retirees in the PERS, TPAF and ABP. In accordance with Chapter 62, P.L. 1994, post-retirement medical (PRM) benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Chapter 2, P.L. 2010, effective May 21, 2010, requires a minimum contribution of 1.5% of base salary toward the cost of health care benefits coverage by all active public employees. Employees of the State, local governments, and boards of education who become a member of a State or locally-administered retirement system on or after the law's effective date would be required to pay in retirement 1.5% of their pension benefit toward the cost of health care coverage under the SHBP.

Chapter 78, P.L. 2011, effective June 28, 2011, established new employee contribution requirements towards the cost of employer provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011, the 4-year phase-in does not apply, and contributions based on the full percentage rate of contribution are required. Under Chapter 78, certain future retirees eligible for employer-paid health care coverage at retirement are also required to pay a percentage of the cost of their medical coverage determined on the basis of their annual retirement benefit.

Contribution Requirements – NJSEDCP

Participants may defer between 1% and 100% of their salary and less any 414(h) reductions or \$17.0 thousand annually. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of twice the annual maximum in the three years immediately preceding the retirement age at which no reduction in benefits would be applicable. The employer does not make contributions to the Plan.

Contribution Requirements – DCRP

The DCRP was established for elected and certain appointed officials by Chapter 92, P.L. 2007, effective July 1, 2007. State and local government employers contribute 3% of the employees' base salary. Active members contribute 5.5% of base salary.

Chapter 103, P.L. 2007, effective July 1, 2007, imposed an annual maximum wage contribution base (equivalent to the annual maximum wage base for Social Security deductions) to new employees (Tier 2) of the TPAF and the PERS. This provision was extended by Chapter 1, P.L. 2010, effective May 21, 2010, to new employees (Tier 2) of the PFRS and the SPRS. Based on Chapter 89, P.L. 2008, effective November 2, 2008, new employees with a base salary between \$5,000 and the current minimum TPAF and PERS Tier 3 salary are eligible for participation in the DCRP. Also, based on Chapter 1, P.L. 2010, effective May 21, 2010, new employees who would otherwise be eligible to participate in TPAF and PERS (Tier 4 and Tier 5)

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and do not work the minimum required hours but earn a base salary of at least \$5,000 are eligible for participation in the DCRP.

Contribution Requirements – ABPLTD

The State of New Jersey makes an annual contribution to the ABPLTD, as required, toward the cost of long-term disability benefits which extend beyond the calendar year following the year in which the disability benefits commence for those with a benefit commencement date on or after October 1, 1986.

The State made a contribution of \$3.3 million for fiscal year 2012.

Contribution Requirements – ABP

Members contribute a mandatory 5% of base or contractual salary that is tax deferred under the 414(h) provisions of the Internal Revenue Code. Members are also permitted to make voluntary federal tax-deferred contributions under Internal Revenue Code Section 403(b). The State of New Jersey pays the employer contribution for all State and county employees participating in the plan. The employer contribution is based on 8% of base or contractual salary. The State of New Jersey is also responsible for the cost of non-contributory life insurance coverage and disability coverage for its plan members.

The State made a contribution of \$153.0 million, excluding NCGI of \$16.3 million and short-term disability of \$1.2 million, for fiscal year 2012.

Contribution Requirements – PAF

The contribution requirements were established by N.J.S.A. 43:3B-4. The State of New Jersey is required to make an annual appropriation payment to fund the cost-of-living increases payable to retirees and beneficiaries of retired members in the CPFPPF, POPF and CPF. Funding is on a pay-as-you-go basis.

The State made a contribution of \$1.2 million for fiscal year 2012.

Contribution Requirements – DEP – State and Local

Contributions to pay for the premiums of participating employees in the Dental Expense Program Fund are collected from the State of New Jersey, local governmental and educational employers, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared by the State of New Jersey and active State employees. Former and retired employees who have chosen to participate under the rules of COBRA pay the full cost of the premium. The employers are billed for the full cost of coverage. The State of New Jersey provides contributions through State appropriations. These appropriations are distributed to the DEP on a biweekly and monthly basis. The active member share of the cost of premiums, which is included in the billing to the employers, is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis. Retirees pay 100% of the overall dental cost.

The State made a contribution of \$37.9 million, excluding administrative revenue of \$5.4 thousand, for fiscal year 2012. The local contribution was \$2.7 million for fiscal year 2012.

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(6) Vesting and Benefits

Vesting and Benefit Provisions – JRS

The vesting and benefit provisions are set by N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The JRS provides retirement benefits as well as death and disability benefits. Retirement benefits for age and years of service are as follows:

| Age | Years of judicial service | Benefit as a percentage of final salary |
|-----|---------------------------------|---|
| 70 | 10 | 75% |
| 65 | 15 | 75% |
| 60 | 20 | 75% |

| Age | Years of judicial service | Years of public and judicial service | Benefit as a percentage of final salary |
|-----|---------------------------------|---|---|
| 65 | 5 | 15 | 50% |
| 60 | 5 | 20 | 50% |

Retirement benefits are also available at age 60 with five years of judicial service plus 15 years in the aggregate of public service, or at age 60 while serving as a judge with the benefit determined to be 2% of final salary, as defined, for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years. Deferred and early retirement benefits are also available.

Eligible retirees receiving monthly benefits are entitled to cost-of-living adjustment (COLA) increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

Vesting and Benefit Provisions – CPFPP

The vesting and benefit provisions are set by N.J.S.A. 43:16. The CPFPP provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, as defined, plus 1% for each creditable year of service, as defined, in excess of 25 years, but not to exceed 30 years.

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Chapter 4, P.L. 2001 provided increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions – PFRS

The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Final compensation equals the compensation for the final year of service prior to retirement. Members may seek special retirement after achieving 25 years of creditable service or they may elect deferred retirement after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service. The annual benefit under special retirement is 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 70% of final compensation. Pursuant to the provisions of Chapter 78, P.L. 2011, the annual benefit under special retirement for members enrolled after June 28, 2011 (Tier 3 members), is 60% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 65% of final compensation.

Widow/widowers of members retired since December 18, 1967 receive 50% of the retiree's final compensation. The minimum annual widow/widower's benefits of an accidental disability retiree prior to December 18, 1967 and of all retirees since December 18, 1967 is \$4,500.

Members are always fully vested for their own contributions. In the case of death before retirement, members' beneficiaries are entitled to full payment of members' contributions providing no survivor death benefits are payable.

Eligible retirees receiving monthly benefits are entitled to cost-of-living adjustment (COLA) increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The COLA increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions. Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

Pursuant to Chapter 1, P.L. 2010, for new members of PFRS hired after May 21, 2010 (Tier 2 members), this law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for Social Security, and required the pension to be calculated using a three year average annual compensation instead of the last year's salary.

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Vesting and Benefit Provisions – POPF

The vesting and benefit provisions are set by N.J.S.A. 43:7. The POPF provides retirement, as well as death and disability benefits. Retirement benefits are available after 25 years of service or at age 55 with 20 years of service. The benefit is in the form of a life annuity equal to the greater of (a) 2% of average final compensation up to the 30 years of service, plus 1% of average final compensation for each year of service above 30 and prior to age 65; (b) 50% of final pay; or (c) for members with 25 or more years of service, 2% of average final compensation for each year of service up to 30 years, plus 1% for each year in excess of 30 years. Average final compensation equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years).

Vesting and Benefit Provisions – PERS

The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The PERS provides retirement, death and disability benefits. All benefits vest after eight to ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the PERS.

For Tier 1 members, retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving eight to ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for earnings on their contributions at 2% per annum. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Eligible retirees receiving monthly benefits are entitled to cost-of-living adjustment (COLA) increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The COLA increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions. Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and prior to November 2, 2008 (Tier 2 members) and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60, plus 3% for every year under age 55. Also, this law provided that the amount of compensation for Tier 2 members used for employer and member contributions and benefits under the PERS cannot exceed the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act.

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Chapter 89, P.L. 2008 increased the PERS eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008 and on or before May 21, 2010 (Tier 3 members). It also increased the minimum annual compensation required for membership eligibility for new Tier 3 members from \$1,500 to \$7,500 in addition to amending the early retirement reduction formula for Tier 3 members retiring with 25 years of service to 1% for every year between age 55 and 62, plus 3% for every year under age 55.

Chapter 1, P.L. 2010, effective May 21, 2010, changed the membership eligibility criteria for new members of PERS hired after May 21, 2010 (Tier 4 and Tier 5 members) from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for these members of PERS to 1/60 from 1/55, and it provided that the retirement allowance for these members be calculated using the average annual compensation for the last five years of service instead of the last three years of service. Tier 4 and Tier 5 members of PERS no longer receive pension service credit from more than one employer. Pension service credit is earned for the highest paid position only. This law also closed the Prosecutors Part of the PERS to new members.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for Tier 4 and Tier 5 members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 78, P.L. 2011, provides that new members of PERS hired on or after June 28, 2011 (Tier 5 members) need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65. Tier 5 members are eligible for a service retirement benefit at age 65.

Vesting and Benefit Provisions – SPRS

The vesting and benefit provisions are set by N.J.S.A. 53:5A. The SPRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, as defined. Retirement benefits are available after 20 years of service as defined at any age with mandatory retirement at age 55. The retirement benefit is based upon final compensation, which for Tier 1 members is defined as salary plus maintenance allowance during the last 12 months prior to retirement, and is a life annuity equal to the greater of the following: (a) 50% of final compensation; (b) for members retiring due to mandatory retirement, 50% of final compensation, plus 2% for each year of service in excess of 20 years to a maximum of 60% of final compensation; or (c) for members retiring with 25 or more years of service, 65% of final compensation, plus 1% for each year of service in excess of 25 years, to a maximum of 70% of final compensation. Members may elect deferred retirement after ten years of service in which case benefits in the form of life annuity would begin at age 55 equal to 2% of final compensation for each year of service up to 20 years.

Members are always fully vested for their own contributions.

Eligible retirees receiving monthly benefits are entitled to cost-of-living adjustment (COLA) increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all

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current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

Pursuant to Chapter 1, P.L. 2010 for new members of SPRS hired after May 21, 2010 (Tier 2 members), this law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for Social Security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary.

Vesting and Benefit Provisions – TPAF

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the TPAF.

For Tier 1 members, 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 adjustment (COLA) increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

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% for every year between age 55 and 60, plus 3% for every year under age 55. Also, this law 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.

Chapter 89, P.L. 2008 increased the TPAF eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008 and increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 1, 2008 and retiring with 25 years of service to 1% for every year between age 55 and 62 plus 3% for every year under age 55.

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Chapter 1, P.L. 2010, effective May 21, 2010, changed the membership eligibility criteria for new members of TPAF from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of TPAF to 1/60 from 1/55, and it provided that new members of TPAF have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of TPAF no longer receive pension service credit from more than one employer. Pension service credit is earned for the highest paid position only.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the TPAF with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 78, P.L. 2011, provides that new members of TPAF hired on or after June 28, 2011 (Tier 5 members) need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65. Tier 5 members are eligible for a service retirement benefit at age 65.

Vesting and Benefit Provisions – SACT

Upon retirement, a participant receives a life annuity benefit or may elect to receive a benefit paid as a single cash payment or various forms of monthly annuity payments with a beneficiary provision based on the value of the participant's account in the month of retirement. Upon the death of a participant, the designated beneficiary may elect to receive a lump sum equal to the account value or an annuity under any of the settlement options which a retiree could elect under the Trust. Upon termination of employment and withdrawal from the basic retirement systems, a participant must also withdraw his account under the Trust as a lump-sum settlement.

Benefit Provisions – CPF

Benefits are payable under various State of New Jersey acts in an amount equal to one-half of the compensation received by the participant for his/her service. In the case of Disabled Veterans' Pensions and Surviving Spouses, the amount is \$62.50 per month.

Vesting and Benefit Provisions – NJSEDCP

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Plan members are fully vested for the current valuation of their account from the date of enrollment in the Plan. Benefits are payable upon separation from service with the State of New Jersey.

Vesting and Benefit Provisions – DCRP

Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under Internal Revenue Code (IRC) § 401(a), a non-contributory group life insurance plan and a non-contributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and nonforfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions

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shall be vested and nonforfeitable on the date the participant commences the second year of employment or upon his or her attainment, while employed by an employer, of age 65, whichever occurs first.

Benefit Provisions – ABPLTD

Members who are totally disabled due to an occupational or non-occupational condition are eligible to receive a regular monthly benefit equal to 60% of the base salary earned over the 12 month period preceding the onset of the disability. The long-term disability benefits continue until such time as the member retires or attains the age of 70, whichever comes first.

Vesting and Benefit Provisions – SHBP – State (including PDP – State)

The Program provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. The Prescription Drug Program Fund (PDP) was established in December 1974, under N.J.S.A. 52:14-17.29 to provide coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State employees are eligible for PDP coverage after 60 days of employment.

Vesting and Benefit Provisions – SHBP – Local (including PDP – Local)

The Program provides medical coverage to qualified local active and retired participants. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage under the provisions of Chapter 330, P.L. 1997. Also, local employees are eligible for the PDP coverage after 60 days of employment.

Vesting and Benefit Provisions – SHBP – Education (including PDP – Education)

The program provides medical coverage to qualified local education active and retired participants. Members of the TPAF who retire from a board of education or county college with 25 years of service or on a disability retirement receive free post-retirement medical coverage. Under the provisions of Chapter 126, P.L. 1992, the program also provides free coverage to members of the PERS and Alternate Benefits Program (ABP) who retire from a board of education or county college with 25 years of service or on a disability retirement if the member's employer does not provide this coverage. Certain local participating employers also provide post-retirement medical coverage to their employees. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program if their employer participates in this program or if they are participating in the health benefits plan of their former employer and are enrolled in Medicare Parts A and B by paying the cost of the insurance for themselves and their covered dependents. Also, education employees are eligible for the PDP coverage after 60 days of employment.

Vesting and Benefit Provisions – ABP

ABP provides retirement benefits, disability benefits, and group life insurance benefits to eligible participants. Retirement benefits are payable upon separation from service with no age or service requirements. However, distributions under age 55 are limited to employee contributions and accumulations. The remaining employer's contributions and earnings are available for distribution upon attaining age 55. Participants are immediately vested if the participant has an existing retirement account

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containing employer and employee contributions based on employment in public education, or is an active or vested member of a federal or state retirement system.

Benefit Provisions – PAF

The Pension Adjustment Fund covers eligible retirees and survivors of CPFPPF, POPF and CPF. Eligible retirees and/or survivors are those who have been retired at least 24 months.

Those eligible for benefits are entitled to cost-of-living adjustment (COLA) increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Chapter 4, P.L. 2001 provided increased benefits to certain members of the Consolidated Police and Firemen's Pension Fund who retired prior to December 29, 1989 with at least 25 years of creditable service. The benefit increase is effective November 1, 2001. The maximum amount of the increase was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit would increase from 65% to 70% of final compensation.

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

Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

Benefit Provisions – DEP – State and Local

The Program provides coverage to employees and their eligible dependents for dental services performed by a qualified dentist. Employees are eligible for coverage after 60 days of employment.

(7) Funds

The Funds maintain the following legally required funds as follows (amounts indicated in parenthesis represent net assets held in trust for the respective fund as indicated):

Members' Annuity Savings Fund and Accumulative Interest Fund – JRS (\$44,485,288); TPAF (\$9,493,983,997); PERS (\$11,396,096,703); PFRS (\$3,189,883,103); SPRS (\$190,825,488)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the Funds. Interest earned on member contributions is credited to the Accumulative Interest Fund, which is applied to TPAF, PERS, and JRS. Member withdrawals are paid out of these Funds.

Contingent Reserve Fund – JRS (\$-13,060,769); TPAF (\$-16,057,130,412); PERS (\$-9,821,698,828); SPRS (\$854,608,900)

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

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Fund, as required, are credited to this account. Additionally, payments for administrative and miscellaneous expenses are made from this Fund.

Retirement Reserve Fund – JRS (\$200,611,146); TPAF (\$31,971,786,906); PERS (\$24,058,812,437); PFRS (\$19,435,010,181); SPRS (\$684,413,437)

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 to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund or Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal year 2012) is credited to the Retirement Reserve Fund.

Retirement Reserve Fund – POPF (\$9,044,236)

The Retirement Reserve Fund is credited with State of New Jersey contributions and investment income. In addition, all benefits are paid from this account.

Contributory Group Insurance Premium Fund – TPAF (\$136,195,759); PERS (\$371,240,923)

The Contributory Group Insurance Premium Fund represents the accumulation of member group life insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carriers. Members are required by statute to participate in the contributory group life insurance plan in the first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for active members is 0.4 of 1% of salary for TPAF and 0.5 of 1% of salary for PERS, as defined.

Non-Contributory Group Insurance Premium Fund – PERS – Local (\$71,400,763); PFRS – Local (\$7,982,316)

The Non-Contributory Group Insurance Premium Fund represents the accumulation of employer group life 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 life insurance plan in the first year of membership. TPAF, PERS-State, and PFRS-State show a zero balance as these premium expenses are funded on a monthly basis.

Pension Accumulation Fund – PFRS (\$-1,625,791,035)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the Retirement Reserve Fund and the Special Reserve Fund, as required, are credited to this account. Additionally, payments for administrative and miscellaneous expenses are made from this Fund.

Pension Reserve Fund – CPFPPF (\$4,858,860)

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

Reserve Fund – Alternate Benefit – Long Term Disability (\$1,556,065)

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

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Benefit Enhancement Reserve Fund – PERS – Local (\$307,586,000)

The Benefit Enhancement Reserve Fund is a special reserve fund from which the required normal contributions to provide benefit increases under Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001 will be charged. The fund was established in 2002 and credited with excess assets equivalent to member contributions for fiscal years 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the Benefit Enhancement Fund. Additional transfers will be made, as required, to maintain a fund balance equal to the present value of expected additional normal contributions due to the increased benefits.

Reserve Fund – SHBP – State (including PDP – State) (\$-100,143,475)

The State used available reserves to cover claims payments this fiscal year, resulting in a negative fund balance at year end.

Reserve Fund – SHBP – Local (including PDP – Local) (\$147,927,168)

The net assets of the SHBP – Local are available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

Reserve Fund – SHBP – Education (including PDP – Education) (\$183,891,995)

The net assets of the SHBP – Education are available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

Various reserve fund net asset balances as of June 30, 2012 as described previously are as follows:

| | Pension Trust Funds | Health Benefit Program Funds |
|--|--------------------------------|---|
| Members' Annuity Savings Fund and Accumulative Interest Fund | \$ 24,315,274,579 | — |
| Contingent Reserve Fund | (25,037,281,109) | — |
| Retirement Reserve Fund | 76,359,678,343 | — |
| Contributory Group Insurance Premium Fund | 507,436,682 | — |
| Non-Contributory Group Insurance Premium Fund | 79,383,079 | — |
| Pension Accumulation Fund | (1,625,791,035) | — |
| Pension Reserve Fund | 4,858,860 | — |
| Reserve Fund | 1,556,065 | 231,675,688 |
| Benefit Enhancement Reserve Fund | 307,586,000 | — |
| Variable Accumulation Reserve Account (SACT/DCP/DCRP) | 2,713,666,080 | — |
| Variable Benefits Reserve Account (SACT) | 25,946,808 | — |
| Total | \$ 77,652,314,352 | 231,675,688 |

(8) Contingencies

The Division is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Division's financial statements.

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DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Funding Progress
(Unaudited – See accompanying independent auditor's 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) |
|---|--|--|--|----------------------------|---------------------------|--|
| Judicial Retirement System (JRS) | | | | | | |
| July 1, 2006 | \$ 369,493,799 | 493,778,007 | 124,284,208 | 74.8% | \$ 62,492,250 | 198.9% |
| July 1, 2007 | 379,364,939 | 524,970,330 | 145,605,391 | 72.3 | 63,144,685 | 230.6 |
| July 1, 2008 | 380,964,713 | 553,284,647 | 172,319,934 | 68.9 | 67,159,516 | 256.6 |
| July 1, 2009 | 354,399,646 | 594,043,375 | 239,643,729 | 59.7 | 70,133,372 | 341.7 |
| July 1, 2010 | 329,030,387 | 554,540,403 | 225,510,016 | 59.3 | 71,746,413 | 314.3 |
| July 1, 2011 | 305,245,844 | 585,700,787 | 280,454,943 | 52.1 | 67,437,125 | 415.9 |
| Consolidated Police and Firemen's Pension Fund (CPFPF) | | | | | | |
| July 1, 2006 | \$ 22,453,828 | 24,749,667 | 2,295,839 | 90.7% | N/A | N/A |
| July 1, 2007 | 19,336,247 | 21,090,186 | 1,753,939 | 91.7 | N/A | N/A |
| July 1, 2008 | 15,705,984 | 17,319,488 | 1,613,504 | 90.7 | N/A | N/A |
| July 1, 2009 | 13,515,949 | 14,024,132 | 508,183 | 96.4 | N/A | N/A |
| July 1, 2010 | 10,632,228 | 11,824,904 | 1,192,676 | 89.9 | N/A | N/A |
| July 1, 2011 | 8,126,894 | 9,179,981 | 1,053,087 | 88.5 | N/A | N/A |
| Police and Firemen's Retirement System (PFRS) | | | | | | |
| State: | | | | | | |
| July 1, 2006 | \$ 2,082,930,162 | 3,082,176,677 | 999,246,515 | 67.6% | \$ 506,084,434 | 197.4% |
| July 1, 2007 | 2,215,697,407 | 3,426,631,813 | 1,210,934,406 | 64.7 | 527,556,519 | 229.5 |
| July 1, 2008 | 2,316,017,361 | 3,749,118,910 | 1,433,101,549 | 61.8 | 527,495,741 | 271.7 |
| July 1, 2009 | 2,254,766,935 | 3,993,259,480 | 1,738,492,545 | 56.5 | 525,862,047 | 330.6 |
| July 1, 2010 | 2,190,654,958 | 3,672,361,258 | 1,481,706,300 | 59.7 | 530,747,536 | 279.2 |
| July 1, 2011 | 2,143,492,414 | 3,926,525,679 | 1,783,033,265 | 54.6 | 526,058,270 | 338.9 |
| Local: | | | | | | |
| July 1, 2006 | \$ 18,281,315,556 | 22,907,522,660 | 4,626,207,104 | 79.8% | \$ 2,772,915,465 | 166.8% |
| July 1, 2007 | 19,500,229,156 | 24,562,195,443 | 5,061,966,287 | 79.4 | 2,932,283,180 | 172.6 |
| July 1, 2008 | 20,437,541,909 | 26,871,106,532 | 6,433,564,623 | 76.1 | 3,068,758,436 | 209.6 |
| July 1, 2009 | 20,724,453,343 | 28,448,841,765 | 7,724,388,422 | 72.8 | 3,147,812,476 | 245.4 |
| July 1, 2010 | 20,367,865,987 | 25,601,998,126 | 5,234,132,139 | 79.6 | 3,189,786,833 | 164.1 |
| July 1, 2011 | 21,027,839,958 | 26,978,632,188 | 5,950,792,230 | 77.9 | 3,123,358,027 | 190.5 |
| Prison Officers' Pension Fund (POPF) | | | | | | |
| July 1, 2006 | \$ 14,014,718 | 8,236,295 | (5,778,423) | 170.2% | N/A | N/A |
| July 1, 2007 | 13,499,361 | 7,378,386 | (6,120,975) | 183.0 | N/A | N/A |
| July 1, 2008 | 12,890,441 | 6,789,017 | (6,101,424) | 189.9 | N/A | N/A |
| July 1, 2009 | 11,986,919 | 6,136,441 | (5,850,478) | 195.3 | N/A | N/A |
| July 1, 2010 | 11,018,367 | 5,635,024 | (5,383,343) | 195.5 | N/A | N/A |
| July 1, 2011 | 9,997,650 | 5,096,792 | (4,900,858) | 196.2 | N/A | N/A |

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Required Supplementary Information

Schedule of Funding Progress

(Unaudited – See accompanying independent auditor’s 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) |
|---|--|--|--|----------------------------|---------------------------|--|
| Public Employees’ Retirement System (PERS) | | | | | | |
| State: | | | | | | |
| July 1, 2006 | \$ 10,668,645,162 | 14,797,684,446 | 4,129,039,284 | 72.1% | \$ 4,253,564,219 | 97.1% |
| July 1, 2007 | 11,024,255,608 | 16,028,875,601 | 5,004,619,993 | 68.8 | 4,434,933,181 | 112.8 |
| July 1, 2008 | 11,200,668,671 | 17,072,702,680 | 5,872,034,009 | 65.6 | 4,609,019,779 | 127.4 |
| July 1, 2009 | 10,692,585,100 | 18,947,194,579 | 8,254,609,479 | 56.4 | 4,627,092,235 | 178.4 |
| July 1, 2010 | 10,252,640,127 | 17,429,178,021 | 7,176,537,894 | 58.8 | 4,564,850,886 | 157.2 |
| July 1, 2011 | 9,938,069,705 | 18,290,829,021 | 8,352,759,316 | 54.3 | 4,608,926,826 | 181.2 |
| Local: | | | | | | |
| July 1, 2006 | \$ 16,699,827,172 | 20,273,979,840 | 3,574,152,668 | 82.4% | \$ 6,730,309,209 | 53.1% |
| July 1, 2007 | 17,690,520,507 | 21,764,214,593 | 4,073,694,086 | 81.3 | 6,983,534,635 | 58.3 |
| July 1, 2008 | 18,217,749,414 | 23,173,183,973 | 4,955,434,559 | 78.6 | 7,206,781,046 | 68.8 |
| July 1, 2009 | 18,165,648,669 | 25,523,208,576 | 7,357,559,907 | 71.2 | 7,368,354,906 | 99.9 |
| July 1, 2010 | 18,481,952,370 | 23,918,658,044 | 5,436,705,674 | 77.3 | 7,416,503,897 | 73.3 |
| July 1, 2011 | 18,996,299,489 | 24,679,095,575 | 5,682,796,086 | 77.0 | 7,000,115,900 | 81.2 |
| State Police Retirement System (SPRS) | | | | | | |
| July 1, 2006 | \$ 1,970,398,511 | 2,319,656,532 | 349,258,021 | 84.9% | \$ 263,220,592 | 132.7% |
| July 1, 2007 | 2,066,754,160 | 2,485,649,230 | 418,895,070 | 83.1 | 275,301,995 | 152.2 |
| July 1, 2008 | 2,127,263,509 | 2,609,164,869 | 481,901,360 | 81.5 | 281,087,566 | 171.4 |
| July 1, 2009 | 2,063,962,877 | 2,825,455,568 | 761,492,691 | 73.0 | 287,267,502 | 265.1 |
| July 1, 2010 | 2,019,350,048 | 2,497,094,137 | 477,744,089 | 80.9 | 289,980,657 | 164.8 |
| July 1, 2011 | 2,002,813,881 | 2,581,950,846 | 579,136,965 | 77.6 | 275,219,752 | 210.4 |
| Teachers’ Pension and Annuity Fund (TPAF) | | | | | | |
| July 1, 2006 | \$ 35,531,294,790 | 46,539,868,653 | 11,008,573,863 | 76.3% | \$ 8,748,623,186 | 125.8% |
| July 1, 2007 | 36,714,578,745 | 49,161,247,363 | 12,446,668,618 | 74.7 | 9,077,628,813 | 137.1 |
| July 1, 2008 | 36,664,627,629 | 51,754,814,521 | 15,090,186,892 | 70.8 | 9,419,083,203 | 160.2 |
| July 1, 2009 | 34,838,211,259 | 54,576,061,024 | 19,737,849,765 | 63.8 | 9,747,020,060 | 202.5 |
| July 1, 2010 | 33,265,326,627 | 49,543,347,849 | 16,278,021,222 | 67.1 | 10,025,401,658 | 162.4 |
| July 1, 2011 | 32,289,888,420 | 51,406,540,290 | 19,116,651,870 | 62.8 | 9,682,318,739 | 197.4 |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Funding Progress
(Unaudited – See accompanying independent auditor’s 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) |
|---|--|--|--|----------------------------|-----------------------------|--|
| State Health Benefit Program — State | | | | | | |
| July 1, 2007 | \$ — | 18,417,000,000 | 18,417,000,000 | —% | N/A | N/A |
| July 1, 2008 | — | 19,850,900,000 | 19,850,900,000 | — | \$ 7,163,803,681 | 277.1% |
| July 1, 2009 | — | 20,461,400,000 | 20,461,400,000 | — | 7,493,198,538 | 273.1 |
| July 1, 2010 | — | 21,090,400,000 | 21,090,400,000 | — | 7,424,794,315 | 284.1 |
| July 1, 2011 | — | 18,077,800,000 | 18,077,800,000 | — | 7,491,835,889 | 241.3 |
| State Health Benefit Program — Local | | | | | | |
| July 1, 2007 | \$ — | 9,096,600,000 | 9,096,600,000 | —% | N/A | N/A |
| July 1, 2008 | — | 8,840,500,000 | 8,840,500,000 | — | \$ 2,411,700,000 | 366.6% |
| July 1, 2009 | — | 10,010,400,000 | 10,010,400,000 | — | 2,607,200,000 | 384.0 |
| July 1, 2010 | — | 12,089,800,000 | 12,089,800,000 | — | 2,844,100,000 | 425.1 |
| July 1, 2011 | — | 11,127,000,000 | 11,127,000,000 | — | 2,831,000,000 | 393.0 |
| State Health Benefit Program — Education | | | | | | |
| July 1, 2007 | \$ — | 32,232,500,000 | 32,232,500,000 | —% | N/A | N/A |
| July 1, 2008 | — | 36,062,600,000 | 36,062,600,000 | — | \$ 13,016,396,319 | 277.1% |
| July 1, 2009 | — | 36,321,100,000 | 36,321,100,000 | — | 13,301,201,462 | 273.1 |
| July 1, 2010 | — | 38,191,500,000 | 38,191,500,000 | — | 13,445,205,685 | 284.1 |
| July 1, 2011 | — | 30,871,900,000 | 30,871,900,000 | — | 12,794,864,111 | 241.3 |

* Required disclosure at adoption of standard. Covered payroll not available for the initial analysis.

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

Required Supplementary Information
Schedule of Funding Progress – Additional Actuarial Information
(Unaudited – See accompanying independent auditor's report)

Significant actuarial methods and assumptions used in the most recent 2011 actuarial valuation include the following:

| | State Health Benefit Program Funds |
|-------------------------------|---|
| Actuarial cost method | Projected unit credit |
| Amortization method | Level dollar, open |
| Remaining amortization period | 30 years |
| Actuarial assumptions: | |
| Interest rate | 4.50% (assuming no prefunding) |
| Salary range | N/A |
| Cost-of-living adjustments | N/A |
| Valuation date | July 1, 2011 |

For medical benefits, the healthcare cost trend rate assumption initially is at 8.0% or 9.0% (depending on the medical plan) and decreases to a 5.0% long-term trend rate for all medical benefits after 6 or 8 years. For prescription drug benefits, the initial healthcare cost trend rate assumption is 9.0% or 9.5% (depending on the retirement status), decreasing to a 5.0% long-term trend rate after 8 or 9 years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 5.0% throughout 11 years.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Funding Progress – Additional Actuarial Information
(Unaudited – See accompanying independent auditor's report)

Significant actuarial methods and assumptions used in the most recent 2011 actuarial valuations include the following:

| | JRS | CPFPF |
|-------------------------------|--------------------------------|--------------------------------|
| Actuarial cost method | Projected unit credit | Projected unit credit |
| Asset valuation method | 5 year average of market value | 5 year average of market value |
| Amortization method | Level dollar, open | Level dollar, closed |
| Remaining amortization period | 30 years | 1 year |
| Actuarial assumptions: | | |
| Interest rate | 7.95% | 2.00% |
| Salary range | 2.50% | N/A |
| Cost-of-living adjustments | —% | N/A |
| Valuation date | July 1, 2011 | July 1, 2011 |
| | PFRS | POPF |
| Actuarial cost method | Projected unit credit | Projected unit credit |
| Asset valuation method | 5 year average of market value | Market value |
| Amortization method | Level dollar, open | Level dollar, closed |
| Remaining amortization period | 30 years | 1 year |
| Actuarial assumptions: | | |
| Interest rate | 7.95% | 5.00% |
| Salary range | 6.32% | N/A |
| Cost-of-living adjustments | —% | N/A |
| Valuation date | July 1, 2011 | July 1, 2011 |
| | PERS | SPRS |
| Actuarial cost method | Projected unit credit | Projected unit credit |
| Asset valuation method | 5 year average of market value | 5 year average of market value |
| Amortization method | Level dollar, open | Level dollar, open |
| Remaining amortization period | 30 years | 30 years |
| Actuarial assumptions: | | |
| Interest rate | 7.95% | 7.95% |
| Salary range | 4.52% | 3.45% |
| Cost-of-living adjustments | —% | —% |
| Valuation date | July 1, 2011 | July 1, 2011 |
| | TPAF | |
| Actuarial cost method | Projected unit credit | |
| Asset valuation method | 5 year average of market value | |
| Amortization method | Level dollar, open | |
| Remaining amortization period | 30 years | |
| Actuarial assumptions: | | |
| Interest rate | 7.95% | |
| Salary range | 3.90% | |
| Cost-of-living adjustments | —% | |
| Valuation date | July 1, 2011 | |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited – See accompanying independent auditor's report)

| | <u>Annual required contribution</u> | <u>Employer contributions⁽¹⁾⁽⁴⁾</u> | <u>Percentage contributed</u> |
|---|---|--|-----------------------------------|
| Judicial Retirement System | | | |
| Year ended June 30: | | | |
| 2007 | \$ 25,174,191 | 12,741,898 ⁽⁵⁾ | 50.6% |
| 2008 | 27,171,100 | 12,913,890 ⁽⁵⁾ | 47.5 |
| 2009 | 29,809,782 ⁽⁵⁾ | 1,696,843 ⁽⁵⁾ | 5.7 |
| 2010 | 32,540,704 | 1,032,857 ⁽⁵⁾ | 3.2 |
| 2011 | 38,450,553 | 651,718 | 1.7 |
| 2012 | 42,475,660 | 6,437,938 | 15.2 |
| Consolidated Police and Firemen's Pension Fund | | | |
| Year ended June 30: | | | |
| 2007 | \$ 8,474,210 | 1,784,000 | 21.1% |
| 2008 | 2,388,591 | 523,000 | 21.9 |
| 2009 | 1,824,798 | 1,256,000 | 68.8 |
| 2010 | 1,678,690 | — ⁽⁵⁾ | — |
| 2011 | 528,714 | — | — |
| 2012 | 1,240,860 | 173,790 | 14.0 |
| Police and Firemen's Retirement System | | | |
| Year ended June 30: | | | |
| State: | | | |
| 2007 | \$ 216,570,332 | 128,167,965 ⁽⁵⁾ | 59.2% |
| 2008 | 252,836,330 | 133,510,475 ⁽⁵⁾ | 52.8 |
| 2009 | 275,205,347 | 20,014,342 ⁽⁵⁾ | 7.3 |
| 2010 | 343,091,276 | 7,326,383 ⁽⁵⁾ | 2.1 |
| 2011 | 377,153,530 | 7,629,519 | 2.0 |
| 2012 | 414,290,236 | 61,707,967 | 14.9 |
| Local: | | | |
| 2007 | \$ 584,645,679 | 422,743,218 | 72.3% |
| 2008 | 708,019,933 | 647,288,920 ⁽⁶⁾ | 91.4 |
| 2009 | 773,029,316 | 696,476,702 | 90.1 |
| 2010 | 818,672,171 | 751,395,802 | 91.8 |
| 2011 | 960,271,326 | 882,095,029 | 91.9 |
| 2012 | 823,842,166 | 763,182,795 | 92.6 |
| Prison Officers' Pension Fund | | | |
| Year ended June 30: | | | |
| 2007 | \$ — | — | N/A |
| 2008 | — | — | N/A |
| 2009 | — | — | N/A |
| 2010 | — | — | N/A |
| 2011 | — | — | N/A |
| 2012 | — | — | N/A |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited – See accompanying independent auditor's report)

| | <u>Annual required contribution</u> | <u>Employer contributions⁽¹⁾⁽⁴⁾</u> | <u>Percentage contributed</u> |
|--|---|--|-----------------------------------|
| Public Employees' Retirement System⁽²⁾ | | | |
| Year ended June 30: | | | |
| State: | | | |
| 2007 | \$ 379,946,338 | 215,629,964 | 56.8% |
| 2008 | 557,237,789 ⁽⁵⁾ | 234,560,830 ⁽⁵⁾ | 42.1 |
| 2009 | 622,123,112 | 49,408,878 ⁽⁵⁾ | 7.9 |
| 2010 | 684,036,322 | 27,910,317 ⁽⁵⁾ | 4.1 |
| 2011 | 871,820,619 | 31,079,384 | 3.6 |
| 2012 | 979,368,523 | 157,964,207 | 16.1 |
| Local: | | | |
| 2007 | \$ 382,344,230 | 242,230,174 | 63.4% |
| 2008 | 588,326,347 ⁽⁶⁾ | 412,129,536 ⁽⁶⁾ | 70.1 |
| 2009 | 663,668,287 | 578,581,071 ⁽⁶⁾ | 87.2 |
| 2010 | 738,439,441 | 612,372,679 ⁽⁶⁾ | 82.9 |
| 2011 | 952,570,462 | 800,936,802 | 84.1 |
| 2012 | 915,789,890 | 825,980,958 | 90.2 |
| State Police Retirement System | | | |
| Year ended June 30: | | | |
| 2007 | \$ 56,502,006 | 29,268,194 | 51.8% |
| 2008 | 78,761,279 ⁽⁵⁾ | 36,443,502 ⁽⁵⁾ | 46.3 |
| 2009 | 86,385,254 | 5,574,860 ⁽⁵⁾ | 6.5 |
| 2010 | 91,411,237 | 1,018,200 ⁽⁵⁾ | 1.1 |
| 2011 | 114,120,061 | 2,201,604 | 1.9 |
| 2012 | 98,869,662 | 14,610,249 | 14.8 |
| Teachers' Pension and Annuity Fund | | | |
| Year ended June 30: | | | |
| 2007 | \$ 1,407,249,580 | 690,794,259 | 49.1% |
| 2008 | 1,550,503,835 | 695,275,811 | 44.8 |
| 2009 | 1,601,478,508 | 95,863,972 | 6.0 |
| 2010 | 1,796,358,016 | 33,199,655 ⁽⁵⁾ | 1.8 |
| 2011 | 2,123,175,950 | 30,655,332 | 1.4 |
| 2012 | 2,269,823,968 | 317,927,358 | 14.0 |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited – See accompanying independent auditor’s report)

| | Annual required contribution⁽³⁾ | Employer contributions | Percentage contributed |
|---|---|-----------------------------------|-----------------------------------|
| State Health Benefit Program — State | | | |
| Year ended June 30, 2008 | \$ 1,554,300,000 | 391,448,000 | 25.2% |
| Year ended June 30, 2009 | 1,651,900,000 | 424,341,000 | 25.7 |
| Year ended June 30, 2010 | 1,676,000,000 | 476,394,000 | 28.4 |
| Year ended June 30, 2011 | 1,714,500,000 | 511,846,000 | 29.9 |
| Year ended June 30, 2012 | 1,802,200,000 | 505,481,000 | 28.0 |
| State Health Benefit Program — Local | | | |
| Year ended June 30, 2008 | 748,100,000 | 179,900,000 | 24.0% |
| Year ended June 30, 2009 | 713,900,000 | 169,600,000 | 23.8 |
| Year ended June 30, 2010 | 802,100,000 | 209,100,000 | 26.1 |
| Year ended June 30, 2011 | 976,900,000 | 251,100,000 | 25.7 |
| Year ended June 30, 2012 | 1,098,200,000 | 274,800,000 | 25.0 |
| State Health Benefit Program — Education | | | |
| Year ended June 30, 2008 | 2,692,700,000 | 678,152,000 | 25.2% |
| Year ended June 30, 2009 | 2,969,700,000 | 762,859,000 | 25.7 |
| Year ended June 30, 2010 | 2,992,500,000 | 850,606,000 | 28.4 |
| Year ended June 30, 2011 | 3,125,400,000 | 933,054,000 | 29.9 |
| Year ended June 30, 2012 | 3,115,800,000 | 873,919,000 | 28.0 |

Notes to schedule:

- (1) 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. In fiscal year 2004, only PFRS – State and SPRS were able to utilize excess assets to cover, in full or in part, the employer contributions. In fiscal year 2005, only SPRS had excess assets available to utilize. In fiscal year 2006, no excess assets were available to be utilized toward State contributions. On the local side, excess assets were utilized to cover, in full or in part, the employer contributions for PERS through fiscal year 2004 and for PFRS through fiscal year 2003.
- (2) The local employer pension contributions to PERS from 1999 to 2004 represent the required contributions under the early retirement incentive programs.
- (3) The annual required contribution reflects a 30-year, 4.0% annual increasing amortization of the unfunded actuarial accrued liability. Based on expected benefit payments plus retiree drug subsidy for the applicable fiscal year end.
- (4) 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 2011 actuarial valuations and the actual amounts received in fiscal year 2012. 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 2012. The financial statements and footnotes reflect the actual amounts received in 2012.
- (5) For State, the fiscal year 2008 annual required contribution and the fiscal year 2007, 2008, 2009, and 2010 contributions have been reduced in accordance with the provisions of the Appropriation Act for fiscal year 2007, 2008, 2009, and 2010, respectively.
- (6) For local, the fiscal year 2008 annual required contribution and the fiscal year 2008 through 2010 contributions have been reduced in accordance with Chapter 108, P.L. 2003.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Administrative Expenses
Year ended June 30, 2012

| | <u>PERS</u> | <u>TPAF</u> | <u>PFRS</u> | <u>CPFPP</u> | <u>POPF</u> | <u>SPRS</u> | <u>JRS</u> | <u>NJSEDCP</u> | <u>Total</u> |
|----------------------------------|----------------------|-------------------|------------------|---------------|--------------|----------------|----------------|----------------|-------------------|
| Personnel services: | | | | | | | | | |
| Salaries and wages | \$ 9,902,403 | 5,376,131 | 1,509,151 | 6,079 | 2,901 | 106,824 | 101,047 | 187,099 | 17,191,635 |
| Employee benefits | 3,907,493 | 2,121,338 | 595,291 | 2,400 | 1,146 | 42,136 | 38,636 | 70,898 | 6,779,338 |
| Total personnel services | <u>13,809,896</u> | <u>7,497,469</u> | <u>2,104,442</u> | <u>8,479</u> | <u>4,047</u> | <u>148,960</u> | <u>139,683</u> | <u>257,997</u> | <u>23,970,973</u> |
| Professional services: | | | | | | | | | |
| Actuarial services | 428,592 | 200,404 | 484,504 | 1,341 | 796 | 34,693 | 5,777 | — | 1,156,107 |
| Data processing | 1,493,802 | 838,462 | 211,140 | 931 | 445 | 16,414 | 3,033 | 14,093 | 2,578,320 |
| Information systems | 2,257,533 | 1,286,176 | 301,233 | 1,458 | 689 | 24,446 | 4,643 | — | 3,876,178 |
| Other professional (1) | 271,965 | 155,321 | 53,238 | 138 | 82 | 4,008 | 596 | 173,213 | 658,561 |
| Medical reviews (exams/hearings) | 506,903 | 116,439 | 349,417 | — | — | 17,938 | — | — | 990,697 |
| Elections | 127,965 | — | 27,989 | — | — | — | — | — | 155,954 |
| Internal audit and legal | 779,199 | 431,829 | 144,826 | 401 | 238 | 10,370 | 1,727 | — | 1,368,590 |
| Total professional services | <u>5,865,959</u> | <u>3,028,631</u> | <u>1,572,347</u> | <u>4,269</u> | <u>2,250</u> | <u>107,869</u> | <u>15,776</u> | <u>187,306</u> | <u>10,784,407</u> |
| Communication: | | | | | | | | | |
| Travel | 4,708 | 7,904 | 5,193 | — | — | 117 | 1 | 4,024 | 21,947 |
| Telephone | 115,229 | 63,859 | 14,418 | 89 | 35 | 1,034 | 255 | 2,800 | 197,719 |
| Postage | 273,827 | 154,212 | 34,036 | 206 | 81 | 2,593 | 585 | 1,000 | 466,540 |
| Printing and office | 229,580 | 127,276 | 42,712 | 118 | 70 | 3,055 | 509 | — | 403,320 |
| Total communication | <u>623,344</u> | <u>353,251</u> | <u>96,359</u> | <u>413</u> | <u>186</u> | <u>6,799</u> | <u>1,350</u> | <u>7,824</u> | <u>1,089,526</u> |
| Miscellaneous: | | | | | | | | | |
| Office space | 1,407,798 | 792,284 | 187,620 | 974 | 429 | 15,677 | 2,853 | — | 2,407,635 |
| Maintenance | 21,261 | 11,783 | 3,952 | 11 | 6 | 283 | 47 | — | 37,343 |
| Equipment | 12,066 | 6,687 | 2,242 | 6 | 4 | 160 | 27 | — | 21,192 |
| Other services and charges | — | — | — | — | — | — | — | 12,000 | 12,000 |
| Total miscellaneous | <u>1,441,125</u> | <u>810,754</u> | <u>193,814</u> | <u>991</u> | <u>439</u> | <u>16,120</u> | <u>2,927</u> | <u>12,000</u> | <u>2,478,170</u> |
| Total administrative expenses | <u>\$ 21,740,324</u> | <u>11,690,105</u> | <u>3,966,962</u> | <u>14,152</u> | <u>6,922</u> | <u>279,748</u> | <u>159,736</u> | <u>465,127</u> | <u>38,323,076</u> |
| (1) Portion of consulting | | | | | | | | | |

STATE OF NEW JERSEY
 DIVISION OF PENSIONS AND BENEFITS

Schedule of Investment Expense

Year ended June 30, 2012

| | <u>PERS</u> | <u>TPAF</u> | <u>PFRS</u> | <u>CPFPF</u> | <u>POPF</u> | <u>SPRS</u> | <u>JRS</u> | <u>NJSEDCP</u> | <u>Total</u> |
|--------------------|--------------|-------------|-------------|--------------|-------------|-------------|------------|----------------|--------------|
| Investment expense | \$ 7,407,519 | 3,983,130 | 1,351,653 | 4,823 | 2,366 | 95,312 | 16,076 | 196,104 | 13,056,983 |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Expenses for Consultants

Year ended June 30, 2012

| | <u>PERS</u> | <u>TPAF</u> | <u>PFRS</u> | <u>CPFPE</u> | <u>POPF</u> | <u>SPRS</u> | <u>JRS</u> | <u>Total</u> |
|----------------------------------|---------------------|----------------|----------------|--------------|-------------|---------------|--------------|------------------|
| Actuarial: | | | | | | | | |
| Buck Consultants | \$ 428,592 | — | 484,504 | 1,341 | 796 | 34,693 | 5,777 | 955,703 |
| Milliman | | 200,404 | | | | | | 200,404 |
| Medical reviews (exams/hearings) | 506,903 | 116,439 | 349,417 | — | — | 17,938 | — | 990,697 |
| Elections: | | | | | | | | |
| Global support | <u>127,965</u> | <u>—</u> | <u>27,989</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>155,954</u> |
| Total expenses for consultants | <u>\$ 1,063,460</u> | <u>316,843</u> | <u>861,910</u> | <u>1,341</u> | <u>796</u> | <u>52,631</u> | <u>5,777</u> | <u>2,302,758</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012

| | Pension Trust Funds | State Health Benefit Program Funds | Total |
|--|------------------------------------|---|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets: | | | |
| Cash and cash equivalents | \$ 710,701,930 | 11,188,569 | 721,890,499 |
| Securities lending collateral | 1,209,086,214 | — | 1,209,086,214 |
| Investments, at fair value: | | | |
| Cash Management Fund | 1,120,324,394 | 670,653,045 | 1,790,977,439 |
| Common Pension Fund A | 17,810,813,505 | — | 17,810,813,505 |
| Common Pension Fund B | 19,869,132,559 | — | 19,869,132,559 |
| Common Pension Fund D | 14,106,117,246 | — | 14,106,117,246 |
| Common Pension Fund E | 16,810,102,421 | — | 16,810,102,421 |
| Common stocks | 152,251,163 | — | 152,251,163 |
| Mortgages | 963,899,029 | — | 963,899,029 |
| U.S. government obligations | 371,746,092 | — | 371,746,092 |
| Domestic equities | 1,117,461,645 | — | 1,117,461,645 |
| International equities | 257,677,868 | — | 257,677,868 |
| Other fixed income securities | 779,384,678 | — | 779,384,678 |
| | <u>73,358,910,600</u> | <u>670,653,045</u> | <u>74,029,563,645</u> |
| Receivables: | | | |
| Contributions: | | | |
| Members | 176,436,919 | (6,453,061) | 169,983,858 |
| Employers | 3,042,500,527 | 112,838,037 | 3,155,338,564 |
| Accrued interest and dividends | 5,406,223 | — | 5,406,223 |
| Members' loans | 1,169,454,489 | — | 1,169,454,489 |
| Securities sold in transit | 16,105,017 | — | 16,105,017 |
| Other | 17,316,324 | 3,447,665 | 20,763,989 |
| | <u>4,427,219,499</u> | <u>109,832,641</u> | <u>4,537,052,140</u> |
| Total assets | <u>\$ 79,705,918,243</u> | <u>791,674,255</u> | <u>80,497,592,498</u> |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 126,008,322 | 559,998,567 | 686,006,889 |
| Retirement benefits payable | 706,265,336 | — | 706,265,336 |
| Non-contributory group insurance premiums payable | 14,094,987 | — | 14,094,987 |
| Securities lending collateral and rebates payable | 1,207,235,246 | — | 1,207,235,246 |
| | <u>2,053,603,891</u> | <u>559,998,567</u> | <u>2,613,602,458</u> |
| Net assets held in trust for pension and health benefits | <u>\$ 77,652,314,352</u> | <u>231,675,688</u> | <u>77,883,990,040</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Schedule of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2012

| | Pension Trust Funds | State Health Benefit Program Funds | Total |
|--|------------------------------------|---|-----------------------|
| Additions: | | | |
| Contributions: | | | |
| Members | \$ 2,064,589,561 | 244,680,394 | 2,309,269,955 |
| Employers | 2,186,435,612 | 4,721,637,111 | 6,908,072,723 |
| Other | 4,251,107 | — | 4,251,107 |
| Total contributions | <u>4,255,276,280</u> | <u>4,966,317,505</u> | <u>9,221,593,785</u> |
| Investment income: | | | |
| Net depreciation in fair value of investments | (222,799,135) | (111,356) | (222,910,491) |
| Interest | 1,564,532,903 | 1,472,656 | 1,566,005,559 |
| Dividends | 392,036,513 | — | 392,036,513 |
| | 1,733,770,281 | 1,361,300 | 1,735,131,581 |
| Less: investment expense | <u>13,056,983</u> | <u>—</u> | <u>13,056,983</u> |
| Net investment income | <u>1,720,713,298</u> | <u>1,361,300</u> | <u>1,722,074,598</u> |
| Total additions | <u>5,975,989,578</u> | <u>4,967,678,805</u> | <u>10,943,668,383</u> |
| Deductions: | | | |
| Benefits | 8,657,277,377 | 5,266,242,035 | 13,923,519,412 |
| Refunds of contributions | 157,270,934 | — | 157,270,934 |
| Administrative and miscellaneous expenses | 38,229,608 | 8,268,671 | 46,498,279 |
| Total deductions | <u>8,852,777,919</u> | <u>5,274,510,706</u> | <u>14,127,288,625</u> |
| Net decrease | (2,876,788,341) | (306,831,901) | (3,183,620,242) |
| Net assets held in trust for pension and health benefits: | | | |
| Beginning of year | <u>80,529,102,693</u> | <u>538,507,589</u> | <u>81,067,610,282</u> |
| End of year | <u>\$ 77,652,314,352</u> | <u>231,675,688</u> | <u>77,883,990,040</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Balance Sheet Information
Fiduciary Funds – Agency Funds

June 30, 2012

| | <u>Alternate Benefit Program Fund</u> | <u>Pension Adjustment Fund</u> | <u>Dental Expense Program Fund</u> | <u>Total Agency Funds</u> |
|--|---|--|--|-----------------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 752,115 | 610,514 | 1,048,014 | 2,410,643 |
| Investments, at fair value: | | | | |
| Cash Management Fund | <u>558,756</u> | <u>1,420,116</u> | <u>26,256,866</u> | <u>28,235,738</u> |
| Total investments | <u>558,756</u> | <u>1,420,116</u> | <u>26,256,866</u> | <u>28,235,738</u> |
| Receivables: | | | | |
| State related employer contributions | — | 852,147 | — | 852,147 |
| Other contributions | <u>30,816,885</u> | <u>9,435</u> | <u>(2,286,141)</u> | <u>28,540,179</u> |
| Total receivables | <u>30,816,885</u> | <u>861,582</u> | <u>(2,286,141)</u> | <u>29,392,326</u> |
| Total assets | <u>\$ 32,127,756</u> | <u>2,892,212</u> | <u>25,018,739</u> | <u>60,038,707</u> |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 32,028,529 | — | 25,018,739 | 57,047,268 |
| Assets held for local contributing employers | — | 2,412,989 | — | 2,412,989 |
| Pension adjustment payroll payable | — | 237,510 | — | 237,510 |
| Due to State of New Jersey | 99,227 | 64,128 | — | 163,355 |
| Due to other funds | <u>—</u> | <u>177,585</u> | <u>—</u> | <u>177,585</u> |
| Total liabilities | <u>\$ 32,127,756</u> | <u>2,892,212</u> | <u>25,018,739</u> | <u>60,038,707</u> |

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

Combining Schedule of Changes in Fiduciary Net Assets Information
Fiduciary Funds – Agency Funds

Year ended June 30, 2012

| | <u>Alternate Benefit Program Fund</u> | <u>Pension Adjustment Fund</u> | <u>Dental Expense Program Fund</u> | <u>Total Agency Funds</u> |
|--|---|--|--|-----------------------------------|
| Additions: | | | | |
| Contributions: | | | | |
| Members | \$ 959,024 | — | 85,622,543 | 86,581,567 |
| Employers | <u>175,266,446</u> | <u>3,772,893</u> | <u>40,608,023</u> | <u>219,647,362</u> |
| Total contributions | <u>176,225,470</u> | <u>3,772,893</u> | <u>126,230,566</u> | <u>306,228,929</u> |
| Investment income: | | | | |
| Net depreciation in fair value of investments | (48) | (42) | (2,277) | (2,367) |
| Interest | <u>1,829</u> | <u>6,845</u> | <u>35,825</u> | <u>44,499</u> |
| Total investment income | <u>1,781</u> | <u>6,803</u> | <u>33,548</u> | <u>42,132</u> |
| Total additions | <u>176,227,251</u> | <u>3,779,696</u> | <u>126,264,114</u> | <u>306,271,061</u> |
| Deductions: | | | | |
| Benefits | 176,143,473 | 4,246,843 | 123,803,658 | 304,193,974 |
| Refunds of contributions and to the general fund | <u>83,778</u> | <u>(467,147)</u> | <u>2,460,456</u> | <u>2,077,087</u> |
| Total deductions | <u>176,227,251</u> | <u>3,779,696</u> | <u>126,264,114</u> | <u>306,271,061</u> |
| Change in net assets | — | — | — | — |
| Net assets – beginning of year | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Net assets – end of year | <u>\$ —</u> | <u>—</u> | <u>—</u> | <u>—</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Fiduciary Net Assets Information
State Health Benefit Program Fund – State

June 30, 2012

| | Health Benefit Program Fund State | Prescription Drug Program Fund State | Total State Health Benefit Program Fund State |
|---|--|---|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets: | | | |
| Cash | \$ 327,920 | 54,983 | 382,903 |
| Investments, at fair value: | | | |
| Cash Management Fund | <u>64,589,340</u> | <u>29,477,767</u> | <u>94,067,107</u> |
| Total investments | <u>64,589,340</u> | <u>29,477,767</u> | <u>94,067,107</u> |
| Receivables: | | | |
| Contributions: | | | |
| Members | (1,127,090) | (883,940) | (2,011,030) |
| Employers | 8,248,932 | 24,450 | 8,273,382 |
| Other | <u>25,310</u> | <u>944,319</u> | <u>969,629</u> |
| Total receivables | <u>7,147,152</u> | <u>84,829</u> | <u>7,231,981</u> |
| Total assets | <u>\$ 72,064,412</u> | <u>29,617,579</u> | <u>101,681,991</u> |
| Liabilities: | | | |
| Accounts payable and accrued expenses | <u>\$ 183,336,274</u> | <u>18,489,192</u> | <u>201,825,466</u> |
| Total liabilities | <u>183,336,274</u> | <u>18,489,192</u> | <u>201,825,466</u> |
| Net assets held in trust for health benefits | <u>\$ (111,271,862)</u> | <u>11,128,387</u> | <u>(100,143,475)</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Fiduciary Net Assets Information
State Health Benefit Program Fund – Local

June 30, 2012

| | Health Benefit Program Fund Local | Prescription Drug Program Fund Local | Total State Health Benefit Program Fund Local |
|---|--|---|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets: | | | |
| Cash | \$ 2,825,535 | 345,214 | 3,170,749 |
| Investments, at fair value: | | | |
| Cash Management Fund | <u>133,532,972</u> | <u>58,173,623</u> | <u>191,706,595</u> |
| Total investments | <u>133,532,972</u> | <u>58,173,623</u> | <u>191,706,595</u> |
| Receivables: | | | |
| Contributions: | | | |
| Members | (1,649,730) | (852,140) | (2,501,870) |
| Employers | 55,011,526 | 10,770,509 | 65,782,035 |
| Other | <u>48,141</u> | <u>1,068,001</u> | <u>1,116,142</u> |
| Total receivables | <u>53,409,937</u> | <u>10,986,370</u> | <u>64,396,307</u> |
| Total assets | <u>\$ 189,768,444</u> | <u>69,505,207</u> | <u>259,273,651</u> |
| Liabilities: | | | |
| Accounts payable and accrued expenses | <u>\$ 103,557,483</u> | <u>7,789,000</u> | <u>111,346,483</u> |
| Total liabilities | <u>103,557,483</u> | <u>7,789,000</u> | <u>111,346,483</u> |
| Net assets held in trust for health benefits | <u>\$ 86,210,961</u> | <u>61,716,207</u> | <u>147,927,168</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Changes in Fiduciary Net Assets Information
State Health Benefit Program Fund – Local

Year ended June 30, 2012

| | Health Benefit Program Fund Local | Prescription Drug Program Fund Local | Total State Health Benefit Program Fund Local |
|---|--|---|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Additions: | | | |
| Contributions: | | | |
| Members | \$ 27,847,395 | 15,261,996 | 43,109,391 |
| Employers | <u>740,601,399</u> | <u>192,126,317</u> | <u>932,727,716</u> |
| Total contributions | <u>768,448,794</u> | <u>207,388,313</u> | <u>975,837,107</u> |
| Investment income: | | | |
| Net depreciation in fair value of investments | (19,404) | (1,571) | (20,975) |
| Interest | <u>328,160</u> | <u>62,917</u> | <u>391,077</u> |
| Net investment income | <u>308,756</u> | <u>61,346</u> | <u>370,102</u> |
| Total additions | <u>768,757,550</u> | <u>207,449,659</u> | <u>976,207,209</u> |
| Deductions: | | | |
| Benefits | 789,855,345 | 190,058,262 | 979,913,607 |
| Administrative expenses | <u>1,513,167</u> | <u>—</u> | <u>1,513,167</u> |
| Total deductions | <u>791,368,512</u> | <u>190,058,262</u> | <u>981,426,774</u> |
| Net increase (decrease) | (22,610,962) | 17,391,397 | (5,219,565) |
| Net assets held in trust for health benefits: | | | |
| Beginning of year | <u>108,821,923</u> | <u>44,324,810</u> | <u>153,146,733</u> |
| End of year | <u>\$ 86,210,961</u> | <u>61,716,207</u> | <u>147,927,168</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Fiduciary Net Assets Information
State Health Benefit Program Fund – Education

June 30, 2012

| | Health Benefit Program Fund Education | Prescription Drug Program Fund Education | Total State Health Benefit Program Fund Education |
|---|--|---|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets: | | | |
| Cash | \$ 7,172,204 | 462,713 | 7,634,917 |
| Investments, at fair value: | | | |
| Cash Management Fund | <u>298,938,216</u> | <u>85,941,127</u> | <u>384,879,343</u> |
| Total investments | <u>298,938,216</u> | <u>85,941,127</u> | <u>384,879,343</u> |
| Receivables: | | | |
| Contributions: | | | |
| Members | (977,838) | (962,323) | (1,940,161) |
| Employers | 34,588,276 | 4,194,344 | 38,782,620 |
| Other | <u>41,101</u> | <u>1,320,793</u> | <u>1,361,894</u> |
| Total receivables | <u>33,651,539</u> | <u>4,552,814</u> | <u>38,204,353</u> |
| Total assets | <u>\$ 339,761,959</u> | <u>90,956,654</u> | <u>430,718,613</u> |
| Liabilities: | | | |
| Accounts payable and accrued expenses | <u>\$ 227,803,618</u> | <u>19,023,000</u> | <u>246,826,618</u> |
| Total liabilities | <u>227,803,618</u> | <u>19,023,000</u> | <u>246,826,618</u> |
| Net assets held in trust for health benefits | <u>\$ 111,958,341</u> | <u>71,933,654</u> | <u>183,891,995</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Changes in Fiduciary Net Assets Information
State Health Benefit Program Fund – Education

Year ended June 30, 2012

| | Health Benefit Program Fund Education | Prescription Drug Program Fund Education | Total State Health Benefit Program Fund Education |
|---|--|---|--|
| Additions: | | | |
| Contributions: | | | |
| Members | \$ 29,082,922 | 20,436,451 | 49,519,373 |
| Employers | <u>1,650,158,391</u> | <u>446,819,939</u> | <u>2,096,978,330</u> |
| Total contributions | <u>1,679,241,313</u> | <u>467,256,390</u> | <u>2,146,497,703</u> |
| Investment income: | | | |
| Net depreciation in fair value of investments | (64,938) | (2,357) | (67,295) |
| Interest | <u>753,069</u> | <u>119,082</u> | <u>872,151</u> |
| Net investment income | <u>688,131</u> | <u>116,725</u> | <u>804,856</u> |
| Total additions | <u>1,679,929,444</u> | <u>467,373,115</u> | <u>2,147,302,559</u> |
| Deductions: | | | |
| Benefits | 1,875,991,351 | 452,952,748 | 2,328,944,099 |
| Administrative expenses | <u>3,654,752</u> | <u>—</u> | <u>3,654,752</u> |
| Total deductions | <u>1,879,646,103</u> | <u>452,952,748</u> | <u>2,332,598,851</u> |
| Net increase (decrease) | (199,716,659) | 14,420,367 | (185,296,292) |
| Net assets held in trust for health benefits: | | | |
| Beginning of year | <u>311,675,000</u> | <u>57,513,287</u> | <u>369,188,287</u> |
| End of year | <u>\$ 111,958,341</u> | <u>71,933,654</u> | <u>183,891,995</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Balance Sheet Information
Agency Fund – Dental Expense Program

June 30, 2012

| | State | Local | Total Agency Fund – Dental Expense Program |
|---------------------------------------|---------------|--------------|---|
| Assets: | | | |
| Cash and cash equivalents | \$ 651,305 | 396,709 | 1,048,014 |
| Investments, at fair value: | | | |
| Cash Management Fund | 15,956,388 | 10,300,478 | 26,256,866 |
| Total investments | 15,956,388 | 10,300,478 | 26,256,866 |
| Receivables: | | | |
| Contributions | 572,165 | (2,858,306) | (2,286,141) |
| Total receivables | 572,165 | (2,858,306) | (2,286,141) |
| Total assets | \$ 17,179,858 | 7,838,881 | 25,018,739 |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 17,179,858 | 7,838,881 | 25,018,739 |
| Total liabilities | \$ 17,179,858 | 7,838,881 | 25,018,739 |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Changes in Fiduciary Net Assets Information
Agency Fund – Dental Expense Program

Year ended June 30, 2012

| | <u>State</u> | <u>Local</u> | <u>Total Agency Fund – Dental Expense Program</u> |
|--|-------------------|-------------------|---|
| Additions: | | | |
| Contributions: | | | |
| Members | \$ 51,468,095 | 34,154,448 | 85,622,543 |
| Employers | 37,927,718 | 2,680,305 | 40,608,023 |
| Total contributions | <u>89,395,813</u> | <u>36,834,753</u> | <u>126,230,566</u> |
| Investment income: | | | |
| Net depreciation in fair value of investments | (2,163) | (114) | (2,277) |
| Interest | 26,055 | 9,770 | 35,825 |
| Total investment income | <u>23,892</u> | <u>9,656</u> | <u>33,548</u> |
| Total additions | <u>89,419,705</u> | <u>36,844,409</u> | <u>126,264,114</u> |
| Deductions: | | | |
| Benefits | 86,614,797 | 37,188,861 | 123,803,658 |
| Refunds of contributions and to the general fund | 2,804,908 | (344,452) | 2,460,456 |
| Total deductions | <u>89,419,705</u> | <u>36,844,409</u> | <u>126,264,114</u> |
| Change in net assets | — | — | — |
| Net assets – beginning of year | <u>—</u> | <u>—</u> | <u>—</u> |
| Net assets – end of year | <u>\$ —</u> | <u>—</u> | <u>—</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Changes in Assets and Liabilities
Information – Agency Fund – Alternate Benefit Program Fund

June 30, 2012

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Additions</u> | <u>De ductions</u> | <u>Balance</u> <u>June 30, 2012</u> |
|---------------------------------------|--|--------------------|--------------------|--|
| Assets: | | | | |
| Cash and cash equivalents | \$ 63,944 | 153,994,782 | 153,306,611 | 752,115 |
| Investments, at fair value: | | | | |
| Cash Management Fund | 385,247 | 175,007,751 | 174,834,242 | 558,756 |
| Receivables: | | | | |
| Other contributions | <u>25,457,163</u> | <u>30,816,885</u> | <u>25,457,163</u> | <u>30,816,885</u> |
| Total assets | <u>\$ 25,906,354</u> | <u>359,819,418</u> | <u>353,598,016</u> | <u>32,127,756</u> |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 25,715,563 | 32,797,605 | 26,484,639 | 32,028,529 |
| Due to State of New Jersey | <u>190,791</u> | <u>99,227</u> | <u>190,791</u> | <u>99,227</u> |
| Total liabilities | <u>\$ 25,906,354</u> | <u>32,896,832</u> | <u>26,675,430</u> | <u>32,127,756</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Changes in Assets and Liabilities
Information – Agency Fund – Pension Adjustment Fund

June 30, 2012

| | Balance | | | Balance |
|--|----------------------|-------------------|-------------------|----------------------|
| | June 30, 2011 | Additions | Deductions | June 30, 2012 |
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,878,696 | 3,105,846 | 4,374,028 | 610,514 |
| Investments, at fair value: | | | | |
| Cash Management Fund | 476,192 | 5,552,470 | 4,608,546 | 1,420,116 |
| Receivables: | | | | |
| State related employer contributions | 1,274,762 | 3,861,184 | 4,283,799 | 852,147 |
| Other contributions | 68,491 | 22,394 | 81,450 | 9,435 |
| Total assets | <u>\$ 3,698,141</u> | <u>12,541,894</u> | <u>13,347,823</u> | <u>2,892,212</u> |
| Liabilities: | | | | |
| Assets held for local contributing employers | \$ 2,944,265 | 1,842 | 533,118 | 2,412,989 |
| Pension adjustment payroll payable | 392,250 | 4,287,545 | 4,442,285 | 237,510 |
| Due to State of New Jersey | 24,953 | 64,128 | 24,953 | 64,128 |
| Due to other funds | 336,673 | 3,315,740 | 3,474,828 | 177,585 |
| Total liabilities | <u>\$ 3,698,141</u> | <u>7,669,255</u> | <u>8,475,184</u> | <u>2,892,212</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Changes in Assets and Liabilities
Information – Agency Fund – Dental Expense Program – Total

June 30, 2012

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Additions</u> | <u>De ductions</u> | <u>Balance</u> <u>June 30, 2012</u> |
|---------------------------------------|--|--------------------|--------------------|--|
| Assets: | | | | |
| Cash and cash equivalents | \$ 564,590 | 36,897,969 | 36,414,545 | 1,048,014 |
| Investments, at fair value: | | | | |
| Cash Management Fund | 18,275,013 | 197,598,272 | 189,616,419 | 26,256,866 |
| Receivables: | | | | |
| Other contributions | <u>(355,080)</u> | <u>133,016,450</u> | <u>134,947,511</u> | <u>(2,286,141)</u> |
| Total assets | <u>\$ 18,484,523</u> | <u>367,512,691</u> | <u>360,978,475</u> | <u>25,018,739</u> |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 18,378,249 | 68,853,814 | 62,213,324 | 25,018,739 |
| Cash overdraft | <u>106,274</u> | <u>—</u> | <u>106,274</u> | <u>—</u> |
| Total liabilities | <u>\$ 18,484,523</u> | <u>68,853,814</u> | <u>62,319,598</u> | <u>25,018,739</u> |

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Changes in Assets and Liabilities
Information – Agency Fund – Dental Expense Program – State

June 30, 2012

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2012</u> |
|---------------------------------------|--|--------------------|--------------------|--|
| Assets: | | | | |
| Cash and cash equivalents | \$ 564,590 | 32,371,195 | 32,284,480 | 651,305 |
| Investments, at fair value: | | | | |
| Cash Management Fund | 11,667,943 | 155,835,936 | 151,547,491 | 15,956,388 |
| Receivables: | | | | |
| Other contributions | <u>(330,791)</u> | <u>93,171,500</u> | <u>92,268,544</u> | <u>572,165</u> |
| Total assets | <u>\$ 11,901,742</u> | <u>281,378,631</u> | <u>276,100,515</u> | <u>17,179,858</u> |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 11,901,742 | 55,734,173 | 50,456,057 | 17,179,858 |
| Total liabilities | <u>\$ 11,901,742</u> | <u>55,734,173</u> | <u>50,456,057</u> | <u>17,179,858</u> |

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

Schedule of Changes in Assets and Liabilities
Information – Agency Fund – Dental Expense Program – Local

June 30, 2012

| | Balance | | | Balance |
|---------------------------------------|----------------------|-------------------|-------------------|----------------------|
| | June 30, 2011 | Additions | Deductions | June 30, 2012 |
| Assets: | | | | |
| Cash and cash equivalents | \$ — | 4,526,774 | 4,130,065 | 396,709 |
| Investments, at fair value: | | | | |
| Cash Management Fund | 6,607,070 | 41,762,336 | 38,068,928 | 10,300,478 |
| Receivables: | | | | |
| Other contributions | <u>(24,289)</u> | <u>39,844,950</u> | <u>42,678,967</u> | <u>(2,858,306)</u> |
| Total assets | <u>\$ 6,582,781</u> | <u>86,134,060</u> | <u>84,877,960</u> | <u>7,838,881</u> |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 6,476,507 | 13,119,641 | 11,757,267 | 7,838,881 |
| Cash overdraft | <u>106,274</u> | <u>—</u> | <u>106,274</u> | <u>—</u> |
| Total liabilities | <u>\$ 6,582,781</u> | <u>13,119,641</u> | <u>11,863,541</u> | <u>7,838,881</u> |