Financial Section

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the State of New Jersey Division of Pensions and Benefits (the Division) as of and for the year ended June 30, 2002, which collectively comprise the Division's basic financial statements as listed in the accompanying index. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions 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 financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, and each major fund, of the State that is attributable to the transactions of 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, 2002, and the changes in its financial position and its cash flows, where applicable, 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 respective financial position of the governmental activities, business-type activities, and each major fund of the State of New Jersey Division of Pensions and Benefits as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments:* Omnibus, as of July 1, 2001.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress, schedule of employer contributions, and schedule of loss development information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements taken as a whole. The combining schedules and schedule of administrative expenses, schedule of investment expenses, and schedule of expenses for consultants are presented for purposes of additional analysis and are not a required part of the financial statements of the Division. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The information included in the Introductory, Investment, Actuarial, and Statistical sections of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

September 6, 2002

KPMG LLP

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

June 30, 2002

INDEX

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002 and 2001

Our discussion and analysis of the financial performance of the governmental funds, proprietary funds, and 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, 2002. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

Governmental Activities:

- For Health Benefits Program-State, net assets decreased by $53.6 million as a result of operations from ($38.9) million to ($92.5) million. For Prescription Drug Program-State, net assets increased by $1.2 million from $4.9 million to $6.1 million. For Dental Expense Program, net assets increased by $4.9 million from $12.2 million to $17.1 million.
- Revenues recognized during the year were as follows: $656.2 million for the Health Benefits Program-State; $163.5 million for the Prescription Drug Program-State; $59.3 million for the Dental Expense Program.
- Expenses incurred during the year were as follows: $712.8 million for the Health Benefits Program-State; $159.2 million for the Prescription Drug Program-State; $54.3 million for the Dental Expense Program.

Business-Type Activities:

- For Health Benefits Program-Local, net assets decreased by $57.5 million as a result of operations from ($2.2) million to ($59.7) million. For Prescription Drug Program-Local, net assets increased by $3.4 million from $1.8 million to $5.2 million.
- For the Health Benefits Program-Local and the Prescription Drug Program-Local, revenues recognized during the year were $1.1 billion and $43.1 million, respectively.
- For Health Benefits Program-Local and the Prescription Drug Program-Local, expenses incurred during the year were $1.2 billion and $39.7 million, respectively.

Fund Financial Statements

Fiduciary Funds:

Pension Trust Funds:

- Fiduciary net assets decreased by $9 billion as a result of this year's operations from $76 billion to $67 billion.
- Additions for the year were ($4.6) billion, which are comprised of member and employer pension contributions of $1.4 billion and investment losses of ($6) billion.
- Deductions for the year were $4.34 billion, which are comprised of benefit and refund payments of $4.3 billion and administrative expenses of $34.6 million.
- The Funds utilized net assets (excess assets above the required funding level) to meet this year's normal pension contribution requirements.
- Net assets held in trust for post-retirement medical benefits were used this year to pay premiums and

other periodic charges for health care benefits for qualified retirees and their dependents in the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF).

Agency Funds:

- For Alternate Benefit Program Fund and Pension Adjustment Fund, total additions were $124.7 million mostly consisting of member and employer contributions of $122.3 million and investment income of $2.4 million.
- For Alternate Benefit Program Fund and Pension Adjustment Fund, total deductions were $124.7 million consisting of pension and insurance benefit charges of $121.5 million and other expenses of $3.2 million.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

Government-wide financial statements include the following governmental activities and business-type activities:

Governmental Activities:

Health Benefits Program - State
Prescription Drug Program - State
Dental Expense Program

Business-Type Activities:

Health Benefits Program - Local
Prescription Drug Program - Local

The government-wide financial statements consist of the *statement of net deficit* and the *statement of activities*. The *statement of net deficit* presents information on all of the assets and liabilities of the Funds, with the difference between the two reported as net deficit. Over time, increases or decreases in the net assets (deficit) provide one indication of whether the financial health of the Funds is improving or declining. The *statement of activities* presents information showing how the Funds' net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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. All of the funds of the Division can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds:

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the

Funds' long-term financing decisions. Both the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds:

Proprietary funds include funds that are classified as enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to business enterprises where the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Like government-wide financial statements, the financial statements of the proprietary funds were prepared using the accrual basis of accounting. The basic proprietary fund financial statements consist of the *statement of net assets (deficit),* the *statement of revenues, expenses, and changes in net assets (deficit),* and the *statement of cash flows.* The *statement of cash flows* provides detail about the individual sources and uses of cash associated with operating activities and noncapital financing activities.

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 thirteen fiduciary funds, eleven pension trust funds and two 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 government-wide and fund financial statements.

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 funds.

FINANCIAL ANALYSIS

Government-Wide:

STATEMENT OF NET DEFICIT

Governmental Activities:

Assets mainly consist of cash, investments, and contributions due from members, participating employers and former members who are covered under the rules of the Federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), and contributions due from the PERS and the TPAF to provide funding for post-retirement medical benefits. Between fiscal year 2001 and 2002, total assets decreased by $44.8 million from $117.4 million to $72.6 million. The reduction in total assets is mainly due to a substantial increase in claim charges for the health plans. In addition, claim charges exceeded the contributions received to pay the health insurance premiums.

Liabilities mainly consist of outstanding medical and long-term disability claim payments, including incurred but not reported (IBNR) claims. Total liabilities increased by $2.5 million since the prior year from $139.2 million to $141.7 million.

Net assets decreased by $47.4 million from ($21.8) million to ($69.2) million as a result of the increase in the benefit charges incurred by the health plans, which is attributable to an increase in the number of covered members and the rising cost of health services.

Business-Type Activities:

Assets mainly consist of cash, investments, contributions due from members, participating employers, and former members who are covered under the rules of COBRA. Between fiscal year 2001 and 2002, total assets decreased by $44 million from $187.7 million to $143.7 million. The reduction in total assets is mainly due to a substantial increase in claim charges for the health plans. In addition, claim charges exceeded the contributions received to pay the health insurance premiums.

Liabilities mainly consist of outstanding claim payments and IBNR claims. Total liabilities increased by $10 million since the prior year from $188.1 million to $198.1 million.

Net assets decreased by $54 million from ($0.5) million to ($54.5) million as a result of the increase in the benefit charges incurred by the health plans, which is attributable to an increase in the number of covered members and the rising cost of health services.

STATEMENT OF ACTIVITIES

REVENUES - ADDITIONS TO NET ASSETS (DEFICIT)

Governmental Activities:

	2002	2001	Increase (Decrease)
Member Contributions	$ 92,615,336	$ 87,163,245	$ 5,452,091
Employer Contributions	783,945,829	724,707,205	59,238,624
Investment & Other	2,403,464	6,590,826	(4,187,362)
Totals	$ 878,964,629	$ 818,461,276	$ 60,503,353

Business-Type Activities:

	2002	2001	Increase (Decrease)
Member Contributions	$ 62,065,953	$ 54,016,936	$ 8,049,017
Employer Contributions	1,098,924,109	918,328,713	180,595,396
Investment & Other	2,484,915	8,639,480	(6,154,565)
Totals	$ 1,163,474,977	$ 980,985,129	$ 182,489,848

Revenues primarily consist of member and employer contributions and earnings from investment activities. For the governmental activities, revenues increased by 7.4% from $818.5 million to $879 million. For the business-type activities, total revenues increased by 18.6% from $981 million to $1.2 billion. The increase in revenues is attributable to an increase in the premium rates for the health and prescription drug plans. Member contributions also increased by 6.3% for the governmental activities and by 14.9% for the business-type activities due to the rate increases. Investment revenues are down due to a reduction in Cash Management Fund earnings.

EXPENSES - DEDUCTIONS FROM NET ASSETS (DEFICIT)

Governmental Activities:

	2002	2001	Increase (Decrease)
Benefits	$ 924,003,561	$ 848,949,948	$ 75,053,613
Administrative Expenses	2,346,803	4,073,026	(1,726,223)
Totals	$ 926,350,364	$ 853,022,974	$ 73,327,390

Business-Type Activities:

	2002	2001	Increase (Decrease)
Benefits	$ 1,212,090,971	$ 1,029,378,583	$ 182,712,388
Administrative Expenses	5,475,874	4,718,163	757,711
Totals	$ 1,217,566,845	$ 1,034,096,746	$ 183,470,099

Expenses consist of benefit charges and administrative expenses. During the year, expenses increased by $73.3 million or 8.6% for the governmental activities and by $183.5 million or 17.7% for the business-type activities primarily due to rising health and prescription drug costs. For the governmental activities, administrative expenses decreased due to a reclassification of service charges to regular benefit payments.

Fiduciary Funds:

STATEMENT OF FIDUCIARY NET ASSETS

Pension Trust Funds:

Assets mainly consist of cash, investments and contributions due from members and participating employers. Between fiscal year 2001 and 2002, total assets decreased by $8.9 billion or 11.6% from $76.4 billion to $67.5 billion. The reduction in total assets is mainly attributable to a reduction in the value of the Funds' investment holdings, which is due to the poor stock market conditions. In addition, benefit payments have increased over the prior year.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, outstanding insurance premium payments, and other payables. Total liabilities increased by $98.9 million or 32.2% over last year from $306.8 million to $405.7 million. This is mainly due to an increase in retirement and insurance benefit payments. In addition, accruals for insurance benefit payments include three months of premium charges and increased by $25.7 million.

Net assets decreased by $8.9 billion or 11.7% primarily due to the loss in the value of the Funds' equity holdings.

Agency Funds:

Assets mainly consist of cash, investments and contributions due from the State and local employers. Between fiscal year 2001 and 2002, total assets increased by $6.4 million or 31.7% from $20.2 million to $26.6 million. This is mainly due to an increase in contributions due from the State to cover life insurance charges in the Alternate Benefit Program Fund (ABP).

Liabilities mainly consist of benefits payable to eligible recipients in the Pension Adjustment Fund (PAF); pension reimbursements owed by the State of New Jersey to state/county colleges and outstanding life and long-term disability insurance premium charges in the ABP. Between fiscal year 2001 and 2002, total liabilities increased by $6.4 million or 31.7% from $20.2 to $26.6 million. The increase in the liabilities is also related to the significant increase in the life insurance charges for the ABP, which is due to an increase in the number of claims filed.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

Pension Trust Funds:

	2002	2001	Increase (Decrease)
Member Contributions	$ 1,057,608,080	$ 1,048,701,142	$ 8,906,938
Employer Contributions	295,410,822	266,962,209	28,448,613
Investment & Other	(5,947,996,665)	(7,925,593,158)	1,977,596,493
Totals	$ (4,594,977,763)	$ (6,609,929,807)	$ 2,014,952,044

Additions primarily consist of member and employer contributions and earnings from investment activities. There was only a slight increase of 0.85% in total member contributions due to a reduction in the member contribution rate in the TPAF. The contribution rate was reduced from 4.5% to 3% effective 1/01/02, which resulted in a 10.9% reduction in member contributions in the TPAF. In all other pension trust funds, member contributions increased between 2001 and 2002. The increases ranged from 4.94% in the Police and Firemen's Retirement System (PFRS) to 27.8% in the Judicial Retirement System. Employer contributions increased by 10.7% mainly due to a significant increase in the contributions recognized by the PFRS over the prior year.

For the pension benefit programs, net assets (excess assets above the required funding level) have been utilized to fund, in full or in part, the contribution requirements of the State and local participating employers. Net assets have been available mainly due to Pension Security legislation passed in 1997. This legislation authorized the New Jersey Economic Development Authority to issue bonds and to use the proceeds from the bond sale to eliminate the State's portion of the unfunded accrued liabilities of the retirement systems. The Funds' received bond proceeds of $2.75 billion in 1997. This influx of funds, coupled with investment returns in the late 1990s, has produced excess net assets which have been utilized to partially or fully cover the normal employer contributions due from the State and local participating employers since 1997.

For the second consecutive year, the pension funds had an investment loss. In fiscal years 2002 and 2001, the total investment loss for all pension funds was 9.0% and 10.4%, respectively.

Agency Funds:

	2002	2001	Increase (Decrease)
Member Contributions	$ 651,432	$ 548,258	$ 103,174
Employer Contributions	121,669,465	114,031,453	7,638,012
Investment & Other	2,378,235	1,200,346	1,177,889
Totals	$ 124,699,132	$ 115,780,057	$ 8,919,075

For the ABP, additions primarily consist of member and employer contributions and earnings from investment activities. During the year, member and employer contributions increased by 18.8% and 7.5%, respectively, due to higher base salaries and increased membership. Investment earning also increased by $1.4 million due to a gain on the sale of stock acquired in a demutualization.

For the PAF, additions consist of employer contributions and earnings from investment activities. Contributions recognized by the PAF increased slightly over last year. Investment earnings dropped by $259,539 or 48.5% since last year due to a reduction in the Cash Management Fund rate of return.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

Pension Trust Funds:

	2002	2001	Increase (Decrease)
Benefits	$ 4,201,860,059	$ 3,682,185,454	$ 519,674,605
Refunds & Adjustments	99,592,876	255,022,959	(155,430,083)
Administrative Expenses	34,602,649	28,006,914	6,595,735
Totals	$ 4,336,055,584	$ 3,965,215,327	$ 370,840,257

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Funds. The increase in benefit payments is mainly due to a 9.09% increase in the retirement benefits payable to retirees and beneficiaries in the PERS and TPAF as a result of benefit enhancement legislation passed in 2001 (Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001). The benefit increases were effective with the November 1, 2001 retirement checks. The number of refunds processed has decreased compared to last year due to fewer terminations. Administrative expenses have increased mainly due to contractual increases in salaries and higher fringe benefit costs.

Agency Funds:

	2002	2001	Increase (Decrease)
Benefits	$ 121,542,876	$ 112,643,962	$ 8,898,914
Refunds & Amounts Due the General Fund	3,156,256	3,136,095	20,161
Totals	$ 124,699,132	$ 115,780,057	$ 8,919,075

The increase in benefit payments is mainly due to higher life insurance benefit payments in the ABP. The number of active and retired claims processed was higher as compared to the prior year. In addition, the State's pension contribution to the ABP was higher in 2002. The State's contribution is based on 8% of the base salaries of active participants. Salaries were higher in 2002 due to normal salary increases and increased membership.

Refunds and amounts due the general fund primarily represent contributions received from the State of New Jersey in excess of the amount required to cover benefit charges incurred by the Funds. There was an increase in this expense between 2002 and 2001.

OVERALL FINANCIAL CONDITION OF THE FUNDS

For the pension benefit funds, the combined funded ratio of 109.2% indicates that these funds have assets sufficient to meet their benefit obligations now and in the future.

For the State Employees' Deferred Compensation Fund 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.

For the State Health Benefits Program Fund - State and the State Health Benefits Program Fund - Local, contributions received by the Funds to pay the premiums for covered members have not kept pace with the rising health costs and, as a result, most reserves have been fully depleted. To begin to restore the fund balances to prudent levels, double-digit rate increases were established for all health plans for calendar year 2003. Management anticipates that through future rate action and other initiatives, the Funds will become financially stronger.

The Prescription Drug and Dental Program Funds received sufficient contributions to meet this year's benefit obligations. In addition, fund balances have increased since last year which indicates that the Funds are becoming financially stronger. Through future rate action and other initiatives, management anticipates that the financial condition of these benefit programs will continue to improve.

For the Alternate Benefit Long-Term Disability Fund, currently, the Fund has reserves in excess of $3 million to cover future long-term disability benefit charges.

During the year, the Alternate Benefits Program Fund and the Pension Adjustment Fund received sufficient funding to meet their benefit obligations.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide our members, customers, 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 Net Deficit

June 30, 2002

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets			
Assets:			
Cash and cash equivalents	$ 363,462	4,127,845	$ 4,491,307
Investments, at fair value:			
Cash Management Fund	61,167,950	59,955,340	121,123,290
Total investments	61,167,950	59,955,340	121,123,290
Receivables:			
Other	1,267,876	77,101,950	78,369,826
Due from other funds	9,755,338	2,461,253	12,216,591
Total receivables	11,023,214	79,563,203	90,586,417
Total assets	$ 72,554,626	143,646,388	$ 216,201,014
Liabilities and net assets			
Liabilities:			
Accounts payable and accrued expenses	$ 42,661,565	20,963,330	$ 63,624,895
Incurred but not reported claims	95,780,000	176,710,000	272,490,000
Deferred revenue	3,740	21,217	24,957
Due to other funds	3,310,657	447,009	3,757,666
Total liabilities	141,755,962	198,141,556	339,897,518
Net assets (deficit):			
Retained earnings (deficit)	—	(54,495,168)	(54,495,168)
Fund balances:			
Unreserved (deficit)	(69,201,336)	—	(69,201,336)
Total net assets (deficit)	(69,201,336)	(54,495,168)	(123,696,504)
Total liabilities and net assets (deficit)	$ 72,554,626	143,646,388	$ 216,201,014

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Activities

Year ended June 30, 2002

Functions/Programs	Expenses	Program Revenues: Charges for Services (Contributions)	Net (Expense) Revenue and Changes in Net Assets (Deficit): Governmental Activities	Business-Type Activities	TOTAL
Primary government:					
Governmental activities:					
Health Benefits Program - State	$ 712,804,370	655,082,112	(57,722,258)	—	$ (57,722,258)
Dental Expense Program	54,352,706	58,421,993	4,069,287	—	4,069,287
Prescription Drug Program - State	159,193,288	163,057,060	3,863,772	—	3,863,772
Total governmental activities	926,350,364	876,561,165	(49,789,199)	—	(49,789,199)
Business-type activities:					
Health Benefits Program - Local	1,177,907,043	1,117,996,801	—	(59,910,242)	(59,910,242)
Prescription Drug Program - Local	39,659,802	42,993,261	—	3,333,459	3,333,459
Total business-type activities	1,217,566,845	1,160,990,062	—	(56,576,783)	(56,576,783)
Total primary government	$ 2,143,917,209	2,037,551,227	(49,789,199)	(56,576,783)	$ (106,365,982)
General Revenues:					
Investment Earnings			$ 2,403,464	2,484,915	$ 4,888,379
Total general revenues			2,403,464	2,484,915	4,888,379
Change in Net Assets			(47,385,735)	(54,091,868)	(101,477,603)
Net assets (deficit) - Beginning of year			(21,815,601)	(403,300)	(22,218,901)
Net assets (deficit) - End of year			$ (69,201,336)	(54,495,168)	$ (123,696,504)

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Balance Sheet
Governmental Funds

June 30, 2002

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Assets				
Assets:				
Cash and cash equivalents	$ 363,462	—	—	$ 363,462
Investments, at fair value:				
Cash Management Fund	22,678,504	17,307,200	21,182,246	61,167,950
Total investments	22,678,504	17,307,200	21,182,246	61,167,950
Receivables:				
Other	856,001	411,875	—	1,267,876
Due from other funds	5,301,220	4,454,118	—	9,755,338
Total receivables	6,157,221	4,865,993	—	11,023,214
Total assets	$ 29,199,187	22,173,193	21,182,246	$ 72,554,626
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued expenses	$ 29,015,429	1,654,903	11,991,233	$ 42,661,565
Deferred revenue	—	—	3,740	3,740
Due to other funds	174,668	82,191	3,053,798	3,310,657
Total liabilities	29,190,097	1,737,094	15,048,771	45,975,962
Fund balances:				
Unreserved	9,090	20,436,099	6,133,475	26,578,664
Total liabilities and fund balances	$ 29,199,187	22,173,193	21,182,246	$ 72,554,626
Amounts reported in the statement of net assets are different because: Long term liabilities including IBNR are not due and payable in the current period and therefore not reported in the funds.	(92,510,000)	(3,270,000)		(95,780,000)
Fund Balances (Deficiencies)	$ (92,500,910)	17,166,099		$ (69,201,336)

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2002

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Revenues:				
Contributions:				
Members	$ 61,646,089	30,008,187	961,060	$ 92,615,336
Employers	593,436,023	28,413,806	162,096,000	783,945,829
Total contributions	655,082,112	58,421,993	163,057,060	876,561,165
Investment income:				
Net appreciation (depreciation) in fair value of investments	50,098	412,378	53,876	516,352
Interest	1,069,144	453,944	364,024	1,887,112
Total investment income	1,119,242	866,322	417,900	2,403,464
Total revenues	656,201,354	59,288,315	163,474,960	878,964,629
Expenditures:				
Benefits	711,105,167	51,082,706	159,193,288	921,381,161
Administrative expense	2,346,803	—	—	2,346,803
Total expenditures	713,451,970	51,082,706	159,193,288	923,727,964
Excess (deficiency) of revenues over (under) expenditures	(57,250,616)	8,205,609	4,281,672	(44,763,335)
Other Financing Sources (Uses):				
Transfers in	3,030,000	—	—	3,030,000
Transfers out	—	—	(3,030,000)	(3,030,000)
Total other financing sources and uses	3,030,000	—	(3,030,000)	—
Net change in fund balances	(54,220,616)	8,205,609	1,251,672	(44,763,335)
Fund Balances:				
Beginning of year	54,229,706	12,230,490	4,881,803	71,341,999
End of year	$ 9,090	20,436,099	6,133,475	$ 26,578,664

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Net Assets (Deficit)
Proprietary Funds

June 30, 2002

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Assets			
Assets:			
Cash and cash equivalents	$ 4,027,294	100,551	$ 4,127,845
Investments, at fair value:			
Cash Management Fund	56,073,207	3,882,133	59,955,340
Total investments	56,073,207	3,882,133	59,955,340
Receivables:			
Other	72,569,120	4,532,830	77,101,950
Due from other funds	2,461,253	—	2,461,253
Total receivables	75,030,373	4,532,830	79,563,203
Total assets	$ 135,130,874	8,515,514	$ 143,646,388
Liabilities			
Liabilities:			
Accounts payable and accrued expenses	$ 20,963,330	—	$ 20,963,330
Incurred but not reported claims	173,460,000	3,250,000	176,710,000
Deferred revenue	—	21,217	21,217
Due to other funds	407,560	39,449	447,009
Total liabilities	194,830,890	3,310,666	198,141,556
Net Assets (deficit)	$ (59,700,016)	5,204,848	$ (54,495,168)

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)
Proprietary Funds

Year ended June 30, 2002

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Operating Revenues:			
Contributions:			
Members	$ 61,789,457	276,496	$ 62,065,953
Employers	1,056,207,344	42,716,765	1,098,924,109
Total operating revenues	1,117,996,801	42,993,261	1,160,990,062
Operating Expenses:			
Benefits	1,172,431,169	39,659,802	1,212,090,971
Administrative expense	5,475,874	—	5,475,874
Total operating expenses	1,177,907,043	39,659,802	1,217,566,845
Operating income (loss)	(59,910,242)	3,333,459	(56,576,783)
Non-operating revenue:			
Investment income:			
Net appreciation (depreciation) in fair value of investments	85,792	8,949	94,741
Interest	2,300,765	89,409	2,390,174
Total non-operating revenue	2,386,557	98,358	2,484,915
Change in net assets (deficit)	(57,523,685)	3,431,817	(54,091,868)
Net Assets (deficit):			
Beginning of year	(2,176,331)	1,773,031	(403,300)
End of year	$ (59,700,016)	5,204,848	$ (54,495,168)

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2002

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Cash flows from operating activities:			
Receipts - Employer Contributions	$ 1,039,773,880	40,284,530	$ 1,080,058,410
Receipts - Member Contributions	61,630,499	276,496	61,906,995
Benefit payments	(1,113,106,737)	(38,594,151)	(1,151,700,888)
Premium payments	(50,427,242)	—	(50,427,242)
Administrative expense	(5,427,110)	—	(5,427,110)
Net cash provided by operating activities	(67,556,710)	1,966,875	(65,589,835)
Cash flows from investing activities:			
Interest and dividends	2,300,765	89,409	2,390,174
Sale/purchase of investments	67,436,722	(1,964,682)	65,472,040
Net appreciation of fair market value	85,792	8,949	94,741
Net cash provided by investing activities	69,823,279	(1,866,324)	67,956,955
Increase/decrease in cash equivalents	2,266,569	100,551	2,367,120
Cash and cash equivalents beginning of year	1,760,725	—	1,760,725
Cash and cash equivalents end of year	$ 4,027,294	100,551	$ 4,127,845
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating Income (gain/loss)	$ (59,910,242)	3,333,459	$ (56,576,783)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivable	(16,552,973)	(2,432,235)	(18,985,208)
(Increase)/decrease in interfund receivable	(39,449)	—	(39,449)
Increase/(decrease) in accounts payable	9,770,812	1,026,202	10,797,014
Increase/(decrease) in service charges payable	(1,363,893)	—	(1,363,893)
Increase/(decrease) in due to other funds	539,035	39,449	578,484
Total adjustments	(7,646,468)	(1,366,584)	(9,013,052)
Net cash (used in) provided by operating activities	$ (67,556,710)	1,966,875	$ (65,589,835)

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2002

	PENSION TRUST FUNDS	AGENCY FUNDS	TOTAL
Assets			
Assets:			
Cash and cash equivalents	$ 344,606	360,032	$ 704,638
Investments, at fair value:			
Cash Management Fund	2,133,410,286	11,379,809	2,144,790,095
Bonds	634,366,717	—	634,366,717
Common Pension Fund A	28,915,692,630	—	28,915,692,630
Common Pension Fund B	18,230,583,040	—	18,230,583,040
Common Pension Fund D	11,091,308,266	—	11,091,308,266
Common and preferred stocks	785,657,548	—	785,657,548
Mortgages	3,005,665,799	—	3,005,665,799
Total investments	64,796,684,286	11,379,809	64,808,064,095
Receivables:			
Contributions:			
Members	161,128,134	—	161,128,134
Employers	940,510,702	3,040,347	943,551,049
Accrued interest and dividends	397,003,285	—	397,003,285
Members' loans	1,209,950,086	—	1,209,950,086
Other	21,808,516	2,176,399	23,984,915
Due from other funds	—	9,685,435	9,685,435
Total receivables	2,730,400,723	14,902,181	2,745,302,904
Total assets	$ 67,527,429,615	26,642,022	$ 67,554,071,637
Liabilities			
Liabilities:			
Accounts payable and accrued expenses	$ 44,226,248	16,679,007	$ 60,905,255
Retirement benefits payable	327,307,524	—	327,307,524
NCGI premiums payable	29,993,247	—	29,993,247
Cash overdraft	4,232,597	—	4,232,597
Participant distributions payable	—	3,844,137	3,844,137
Pension adjustment payroll payable	—	1,095,939	1,095,939
Due to State of New Jersey	—	3,184,537	3,184,537
Due to other funds	—	1,838,402	1,838,402
Total liabilities	405,759,616	26,642,022	432,401,638
Net Assets			
Held in trust for pension benefits	$ 67,121,669,999	—	$ 67,121,669,999

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2002

	PENSION TRUST FUNDS	AGENCY FUNDS	TOTAL
Additions:			
Contributions:			
Members	$ 1,057,608,080	651,432	$ 1,058,259,512
Employers	295,410,822	121,669,465	417,080,287
Other	13,582,036	—	13,582,036
Total contributions	1,366,600,938	122,320,897	1,488,921,835
Investment income:			
Net appreciation (depreciation) in fair value of investments	(8,158,872,959)	22,826	(8,158,850,133)
Interest	1,754,080,952	2,355,409	1,756,436,361
Dividends	453,039,382	—	453,039,382
	(5,951,752,625)	2,378,235	(5,949,374,390)
Less investment expense	9,826,076	—	9,826,076
Net investment income	(5,961,578,701)	2,378,235	(5,959,200,466)
Total additions	(4,594,977,763)	124,699,132	(4,470,278,631)
Deductions:			
Benefits	4,201,860,059	121,542,876	4,323,402,935
Refunds of contributions and due General Fund	99,592,876	3,156,256	102,749,132
Administrative expenses	34,602,649	—	34,602,649
Total deductions	4,336,055,584	124,699,132	4,460,754,716
Change in net assets	(8,931,033,347)	—	(8,931,033,347)
Net assets - Beginning of year	76,052,703,346	—	76,052,703,346
Net assets - End of year	$ 67,121,669,999	—	$ 67,121,669,999

See accompanying notes to financial statements.

(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):

Governmental funds:

State Health Benefits Program Fund (SHBP) - State
Dental Expense Program Fund (DEPF)
Prescription Drug Program Fund (PDPF) - State

Proprietary funds:

State Health Benefits Program Fund (SHBP) - Local
Prescription Drug Program Fund (PDPF) - Local

Fiduciary funds:

Pension trust funds:

Consolidated Police and Firemen's Pension Fund (CPFPF)
Judicial Retirement System (JRS)
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)
Alternate Benefit Long-Term Disability Fund (ABPLTD)

Agency funds:

Pension Adjustment Fund (PAF)
Alternate Benefit Program Fund (ABP)

Individual financial reports have been prepared for the above funds. These financial reports, which can be obtained from the Division, 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 3 and 4.

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

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 units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental

(1) DESCRIPTION OF THE FUNDS, Continued

accounting and financial reporting principles. The more significant of the Division's accounting policies are described below.

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 trusts governing Boards and/or the State of New Jersey. The financial statements of the funds, systems, and trusts are included in the financial statement of the State of New Jersey; however, the accompanying financial statements are intended to present the funds 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds:
Governmental funds account for proceeds of specific revenue sources that are legally restricted for expenditure for specified purposes.

Proprietary funds:
Proprietary funds account for operations that are financed and operated in a manner similar to business enterprises where the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Fiduciary funds:
Pension trust funds - Account for monies received for, expenses incurred by and the net assets available for plan benefits of the various public employee retirement systems.

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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:
The accounting and financial reporting treatment applied to government-wide statements and funds is determined by its measurement focus. All funds, except for the governmental funds and the agency funds, are accounted for using an economic resources measurement focus. Funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

resources as soon as the underlying event or transaction occurs.

The governmental funds are accounted for using a current financial resources measurement focus and modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, i.e., revenues and other financing additions, and decreases, i.e., expenditures and other deductions, in net assets.

The accrual basis of accounting is used for measuring financial position and changes in net assets of pension trust 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 Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Plan assets are recorded at fair value. Employer contributions are recognized when payable to the funds. Benefits and refunds are recognized when payable in accordance with the terms of the funds.

The modified accrual basis of accounting is used for measuring financial position and changes in financial position for the governmental funds. Under this method, revenues are recognized when measurable and available and expenditures are recognized when incurred and measurable.

Incurred but not reported (IBNR) claims are recognized as expenses and liabilities in the government-wide financial statements under the full accrual basis. For the governmental funds, IBNR claims are recognized to the extent matured.

The focus of proprietary funds measurement is upon determination of changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

The Division applied all governmental standards of accounting and financial reporting prior to November 30, 1989.

New Accounting Standards Adopted:

In fiscal year 2002, the Division adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*

Statement No. 37 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires governmental-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Statement No. 34 also requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

the Funds' financial activities.

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

Investment Valuation:
Investments, including short-term investments (State of New Jersey Cash Management Funds) are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions and Benefits. All investments must conform to standards set by state law.

The State of New Jersey Division of Investment administers three common pension funds which are utilized by the Fund. A brief description of each common pension fund is as follows:

Common Pension Fund A - The operations of Common Pension Fund A are governed by the provisions of Article 62 of the State of New Jersey Investment Council regulations for the purpose of investing in corporate common stocks, securities convertible into corporate common stocks or covered call options.

Common Pension Fund B - The operations of Common Pension Fund B are governed by the provisions of Article 63 of the State of New Jersey Investment Council regulations for the purpose of investing in fixed income and debt securities.

Common Pension Fund D - The operations of Common Pension Fund D are governed by the provisions of Article 67 of the State of New Jersey Investment Council regulations for the purpose of investing in international debt and equity securities, currencies, currency futures, and options.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, and Common Pension Fund D. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the Funds, through the State Treasurer, and custodian banks as agents for the Funds. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

In 2001, the Board of Trustees approved that the Post-Retirement Medical Fund earn a rate of return consistent with the System. In prior years, the Post-Retirement Medical Fund earned a statutorily determined fixed rate of return of 8.75%.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

GASB Statement No. 3 requires disclosure of the level of custodial risk assumed by the Funds. Category 1 includes investments that are insured or registered or for which the securities are held by the Funds or its agent in the Funds' name. As of June 30, 2002, all investments held by the Funds (other than mortgages and the State of New Jersey Cash Management Funds which are not categorized) are classified as Category 1.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the Funds. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the Funds. The custodian banks as agents for the Funds maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Funds.

Securities not maintained by the Federal Reserve Banks or DTC are in the name of a designated nominee representing the securities of the Funds, which establishes the Funds' unconditional right to the securities.

Membership and Contributing Employers:

Membership and contributing employers of the pension trust funds consisted of the following at 6/30/01, the date of the most recent actuarial valuations (6/30/02 for SACT, CPF, NJSEDCP, and ABPLTD):

	JRS	PFRS	PERS	SPRS	TPAF	POPF	CPFPF	SACT	CPF
Retiree members:									
Retirees and beneficiaries receiving benefits currently	368	24,319	104,925	1,906	53,892	249	1,364	697	359
Terminated employees entitled to benefits but not yet receiving them	2	60	2,057	—	1,217	—	—	—	—
Total retiree members	370	24,379	106,982	1,906	55,109	249	1,364	697	359
Active members:									
Vested	209	25,961	140,604	1,889	77,293	—	—	4,424	—
Non-vested	209	17,058	140,224	786	58,557	—	—	—	—
Total active members	418	43,019	280,828	2,675	135,850	—	—	4,424	—
Total	788	67,398	387,810	4,581	190,959	249	1,364	5,121	359
Contributing Employers	1	585	1,672	1	120	1	1	—	1

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

	NJSEDCP	ABPLTD
Retiree members:		
Retirees and beneficiaries receiving benefits currently	2,700	
Terminated employees entitled to benefits but not yet receiving them	—	
Total retiree members	2,700	—
Active members:		
Vested	30,351	106
Non-vested	—	—
Total active members	30,351	106
Total	33,051	106
Contributing Employers	—	1

Membership in the other funds, systems, and trusts administered by the Division consisted of the following as of June 30, 2002:

	STATE	LOCAL	TOTAL
Health Benefits Program Fund*	135,011	204,705	339,716
Prescription Drug Program Fund	106,793	26,631	133,424
Dental Expense Program Fund	94,836	—	94,836
State Employees' Deferred Compensation Plan*	33,051	—	33,051
Alternate Benefit Program Fund**	14,329	2,752	17,081
Pension Adjustment Fund	237	1,195	1,432

* active and retired participants
** including those receiving long-term disability benefits

Members' Loans:
Members of JRS, PFRS, SPRS, PERS and TPAF who have at least three years of service in the Funds may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4%. Members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any benefits or continuing their monthly loan payment schedule into retirement.

Administrative Expenses:
Administrative expenses are paid by the funds, systems, and trusts to the State of New Jersey, Department of the Treasury and are included in the accompanying statements of changes in net assets and fund balances, except for administrative expenses of the CPF which are expensed by the State of New Jersey, who is responsible for such costs.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status:

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the funds, systems, and trusts are qualified plans as described in Section 401(a) of the Internal Revenue Code.

Cash and Cash Equivalents:

GASB Statement No. 3 also requires that deposits held in financial institutions be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all State bank accounts as a whole, all cash balances maintained in financial institutions as of June 30, 2002, which includes funding for the July 1, 2002 retirement payroll, are designated category 3. The cash balances of all funds total $5,195,945.

The categorization of cash and cash equivalents for all State funds, including the pension trust funds, can be found in the notes to the general purpose financial statements of the State of New Jersey.

(3) 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. The State of New Jersey is required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Contribution Requirements - CPFPF

The contribution policy is set by N.J.S.A. 43:16 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. Contributions by active members are based on 7% of their salary. Employers are required to contribute at an actuarially determined rate.

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 are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits. Members contribute at a uniform rate of 8.5% of base salary.

Chapter 115, P.L. 1997 provides for the use of excess valuation assets to fund required normal contributions. Through fiscal year 2002, excess valuation assets may be used to the extent possible to offset normal employer contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation.

(3) CONTRIBUTIONS, Continued

In 2002 and 2001, excess valuation assets were utilized to fund required State contributions of $107,098,598 and $99,607,041, respectively.

In 2002, actuarially determined excess valuation assets also covered required local employer contributions of $268,105,237. In accordance with legislation passed in 2001 (Chapter 44, P.L. 2001), excess valuation assets were recognized to reduce 2001 local employer contributions by $150 million to approximately $76 million. This legislation required that the savings realized by counties and municipalities as a result of this reduction be used for property tax relief.

Contribution Requirements - POPF

The contribution policy is set by N.J.S.A. 43:7 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. Contributions by active members are based on 6% of their salary. Employers are required to contribute at an actuarially determined rate.

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 is 5% of base salary. However, as a result of special legislation (Chapter 415, P.L. 1999), the employee rate was reduced to 3% of base salary effective January 1, 2000. The rate will remain at 3% for as long as actuarially determined excess valuation assets are available in the fund. Employers are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits. 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 benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial reserve basis. Beginning in 1996, the State has made an additional contribution to the Post-Retirement Medical Reserve Fund to ensure an increase in the fund balance of 1/2 of 1% of the salary of active state employees.

The State and local employers were not required to make a normal contribution to the System in 2002 and 2001. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset required normal contributions of the State of New Jersey and the local participating employers. Through FY 2002, excess valuation assets may be used to the extent possible to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation.

The State also made no post-retirement medical (PRM) contribution in FY 2002. Legislation passed in 2002 (Chapter 11, P.L. 2002) allows the State to use net assets in PRM Fund to cover required pay-as-you-go medical premiums. This legislation also suspends in fiscal years 2002 and 2003 the additional PRM contribution to increase the fund balance by 1/2 of 1% of active member salaries for the valuation period. The additional PRM contribution will resume in fiscal year 2004 and will be computed to provide an increase in the reserve fund of 3/5 of 1% of active member salaries for the valuation period.

(3) CONTRIBUTIONS, Continued

The State made a contribution of $85,441,000 in 2001 for post-retirement medical benefits.

To fund the benefit increases provided by Chapter 133, referred to in Note 1, the legislation provides for the use of excess assets. A special benefit enhancement fund was established from which the required normal contributions for the increased benefits will be charged. To fund the accrued liabilities incurred by the System, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets.

The benefit enhancement fund will also provide funding for the benefit increases under Chapter 353, P.L. 2001. Actuarially determined excess valuation assets will cover the additional accrued liability incurred by the retirement system.

Contribution Requirements - SPRS
The contribution policy is set by N.J.S.A. 53:5A-34 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. Employers are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Contribution Requirements - TPAF
The contribution policy is set by N.J.S.A. 18:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. In accordance with legislation passed in 2001 (Chapter 133, P.L. 2001), the employee contribution rate was lowered to 3% effective January 1, 2002. Prior to this date, employees had been contributing at a rate of 4.5%. The rate will remain at 3% for as long as surplus assets are available in the fund. Employers are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits. 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 benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial reserve basis. Beginning 1996, the State has made an additional contribution to the Post-Retirement Medical Reserve Fund to ensure an increase in the fund balance of 1/2 of 1% of the salary of active state employees.

The State and local employers were not required to make a normal contribution to the System in 2002 and 2001. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by actuarially determined excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset required normal contributions of the State of New Jersey and the local participating employers. Through FY 2002, excess valuation assets may be used to the extent possible to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation.

The State also made no post-retirement medical (PRM) contribution in FY 2002. Legislation passed in 2002

(3) CONTRIBUTIONS, Continued

(Chapter 11, P.L. 2002) allows the State to use net assets in PRM Fund to cover required pay-as-you-go medical premiums. This legislation also suspends in fiscal years 2002 and 2003 the additional PRM contribution to increase the fund balance by 1/2 of 1% of active member salaries for the valuation period. The additional PRM contribution will resume in fiscal year 2004 and will be computed to provide an increase in the reserve fund of 3/5 of 1% of active member salaries for the valuation period.

The State made a contribution of $175,558,000 in 2001 for post-retirement medical benefits.

To fund the benefit increases provided by Chapter 133, referred to in Note 1, the legislation provides for the use of excess assets. A special benefit enhancement fund was established from which the required normal contributions for the increased benefits will be charged. To fund the accrued liabilities incurred by the System, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets.

The benefit enhancement fund will also provide funding for the benefit increases under Chapter 353, P.L. 2001. Actuarially determined excess valuation assets will cover the additional accrued liability incurred by the retirement fund.

Contribution Requirements - SACT

Participants contribute through payroll deductions and may contribute from 1% to 10% 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 Fund to pay current year benefits. The contribution requirements were established by the aforementioned statutes and are not actuarially determined. An actuarial valuation is not performed to determine the actuarial implications of the contribution requirements.

The contribution amount required and paid by the State of New Jersey for the fiscal year ended June 30, 2002 was $397,840.

Contribution Requirements - SHBP- State and Local

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP) are collected from the State of New Jersey, participating local employers, active members, retired members, the Public Employees' Retirement System (PERS), and the Teachers' Pension and Annuity Fund (TPAF). 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. Local employer payments, active and retired member contributions, and payments from the PERS and TPAF 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

(3) CONTRIBUTIONS, Continued

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

Contribution Requirements - PDPF- State and Local

Contributions to pay for the premiums of participating employees in the Prescription Drug Plan are collected from the State of New Jersey, participating local employers, 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 Prescription Drug Plan on a monthly basis. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Contribution Requirements - DEPF

Contributions to pay for the premiums of participating employees in the State Employee Dental Program are collected from the State of New Jersey, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared equally 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 State of New Jersey provides contributions through State appropriations. These appropriations are distributed to the SHBP on a biweekly and monthly basis. The active member share of the cost of premiums is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis.

Contribution Requirements - NJSEDCP

Members may defer between 2% and 25% of their salary or $11,000 annually, whichever is less. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of $22,000 annually in the three years immediately preceding retirement. The employer does not make contributions to the Plan.

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.

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 noncontributory life insurance coverage and long term disability coverage for its plan members.

(3) CONTRIBUTIONS, Continued

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 Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund and the Central Pension Fund. Funding is on a pay-as-you-go basis.

(4) 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 System 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 PERCENTAGE OF FINAL SALARY
70	10	75%
65	15	75
60	20	75

JUDICIAL 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 and 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.

Vesting and Benefit Provisions - CPFPF

The vesting and benefit provisions are set by N.J.S.A. 43:16. The Fund 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. Members are always fully vested in their own contributions.

Legislation passed during the year (Chapter 4, P.L. 2001) provides 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 is 5% of the retiree's final compensation. For those with 30 or more years or service, the total pension would increase from 65% to 70% of final compensation.

(4) VESTING AND BENEFITS, Continued

Vesting and Benefit Provisions - PFRS

The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The System 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 percent for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 70 percent 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.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The cost-of-living increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions.

Legislation passed during the year (Chapter 4, P.L. 2001) provides 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 is 5% of the retiree's final compensation. For those with 30 or more years or service, the total pension would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions - POPF

The vesting and benefit provisions are set by N.J.S.A. 43:7. The Fund 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).

(4) VESTING AND BENEFITS, Continued

Members are always fully vested for their own contributions.

Vesting and Benefit Provisions - PERS

The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The System provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. 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 System. 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 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.

Legislation was passed during the current fiscal year (Chapter 353, P.L. 2001) that provides an increase in the special veterans' retirement allowance and the ordinary and accidental disability retirement allowances. The special veterans retirement allowance increased from 50% to 54.5% of the member's compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance increased from 40% to 43.6% of final average compensation, and the accidental disability retirement allowance increased from 66.7% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which are effective October 2001.

Chapter 23, Public Law of 2002 provides early retirement incentive benefits to State employees who meet specified age and service requirements and who retire within a specified time period that generally extends from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20, but less than 25, years of service credit; and an additional monthly benefit of $500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10, but not more than 20, years of service credit. For those eligible for veteran's retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit.

Chapter 259, Public Law of 2001 amends the PERS statutes and creates special retirement benefits for mem-

(4) VESTING AND BENEFITS, Continued

bers employed as workers compensation judges. PERS members entitled to the new benefits are the Chief Judge, the administrative supervisory judges, the supervisory judges, and the judges of compensation of the Division of Workers' Compensation of the Department of Labor. Those in eligible titles would receive retirement benefits comparable to those provided to members of the Judicial Retirement System. The effective date of this legislation was December 6, 2001.

Chapter 366, P.L. 2001 provides enhanced pension benefits to selected individuals with County Prosecutor Offices and in the Division of Criminal Justice.

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

Vesting and Benefit Provisions - SPRS

The vesting and benefit provisions are set by N.J.S.A. 53:5A. The System 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 is defined as salary (as defined) plus maintenance allowance (as defined) 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.

Vesting and Benefit Provisions - TPAF

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The Fund provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the Fund. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

(4) VESTING AND BENEFITS, Continued

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

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

Legislation was passed during the current fiscal year (Chapter 353, P.L. 2001) that provides an increase in the special veterans' retirement allowance and the ordinary and accidental disability retirement allowances. The special veterans retirement allowance increased from 50% to 54.5% of the member's compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance increased from 40% to 43.6% of final average compensation, and the accidental disability retirement allowance increased from 66.7% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which are effective October 2001.

Chapter 23, Public Law of 2002 provides early retirement incentive benefits to State employees who meet specified age and service requirements and who retire within a specified time period that generally extends from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20, but less than 25, years of service credit; and an additional monthly benefit of $500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10, but not more than 20, years of service credit. For those eligible for veteran's retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit.

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

Vesting and Benefit Provisions - SACT

Upon retirement, a participant is paid a single cash payment or may elect various forms of monthly annuities or reduced 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.

(4) VESTING AND BENEFITS, Continued

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 - SHBP - State and Local

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. The State of New Jersey also provides free coverage to members of the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service or on a disability retirement. 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. 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.

Benefit Provisions - PDPF - State and Local

The Program provides 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 and local employees are eligible for coverage after 60 days of employment.

Benefit Provisions - DEPF

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

Vesting and Benefit Provisions - NJSEDCP

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries as required in Government Accounting Standards Board Statement No. 32. 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.

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 - ABP

The Alternate Benefit Program 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

(4) VESTING AND BENEFITS, Continued

attaining age 55. Participants are immediately vested if the participant has an existing retirement account 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 program covers eligible retirees and survivors of the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund, and Central Pension Fund. 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 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.

Legislation passed during the year (Chapter 4, P.L. 2001) provides 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 is 5% of the retiree's final compensation. For those with 30 or more years or service, the total pension would increase from 65% to 70% of final compensation.

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

(5) FUNDS

The Funds maintain the following legally required funds as follows:

Members' Annuity Savings Fund - JRS ($19,977,330); TPAF ($5,782,201,078); PERS ($6,124,856,638); PFRS ($1,993,220,376); SPRS ($129,072,531)

The Members' Annuity Savings Fund is credited with all contributions made by active members of the Funds.

Contingent Reserve Fund - JRS ($162,101,405); TPAF ($5,073,217,056); PERS ($3,991,477,386); SPRS ($999,617,201)

The Contingent Reserve Fund is credited with the contributions of contributing employers other than post-retirement medical contributions. Interest earnings, after crediting the Accumulated Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund - JRS ($123,697,305); TPAF ($15,565,429,321); PERS ($10,629,869,683); PFRS ($7,126,434,642); SPRS ($436,611,517)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, contributory group insurance premiums, and post-retirement medical premiums, including cost-of-living benefits, are paid. Upon retirement of a member, accumulated contributions together with accumu-

(5) FUNDS, Continued

lated interest are transferred to the Retirement Reserve Fund from the Members' Annuity Savings Fund. Any 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 (8.75% for 2002) is credited to the Retirement Reserve Fund.

Retirement Reserve Fund - POPF ($17,908,452)

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

Special Reserve Fund - TPAF ($0); PERS ($0); PFRS ($0)

The Special Reserve Fund is a fund to which any excess interest earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are charged. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the System, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund - TPAF ($93,020,974); PERS ($167,182,773)

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

Pension Accumulation Fund - PFRS ($6,085,389,342)

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

Pension Reserve Fund - CPFPF ($24,544,842)

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

Reserve Fund - SHBP - State ($9,090); PDPF - State ($6,133,475); and DEPF ($20,436,099)

The fund balances of the SHBP - State, PDPF - State, and DEPF are available to pay claims of future periods. These reserves are maintained by the Funds to stabilize rates and to meet unexpected increase in claims. Since these funds are classified as governmental funds, IBNR claims as of June 30, 2002 are reported in the State's general long-term debt account group.

Reserve Fund - SHBP - Local (-$59,700,016); PDPF - Local ($5,204,848)

The SHBP - local has a fund deficit of $59,700,016 as of June 30, 2002. This deficit is expected to be made

(5) FUNDS, Continued

up by some future rate action.

The PDPF - local has retained earnings, which are available to pay claims of future periods and stabilize rates.

Reserve Fund - Alternate Benefit - Long Term Disability ($3,311,331)

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

Post-Retirement Medical Fund - TPAF ($43,933,778); PERS ($66,514,431)

The Post-Retirement Medical Fund is credited with employer contributions for post-retirement medical benefits, interest earnings on post-retirement medical reserves, and from which post-retirement medical premiums are paid.

Benefit Enhancement Reserve Fund - TPAF ($700,332,634); PERS ($572,346,105)

The Benefit Enhancement Reserve Fund is a special reserve fund from which 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. The State will be required to make contributions to the Benefit Enhancement Fund on behalf of State and local members if excess valuation assets are not available.

FUNDS	PENSION TRUST FUNDS	GOVERNMENTAL FUNDS	PROPRIETARY FUNDS
Members' Annuity Savings Fund	$ 14,049,327,953		
Contingent Reserve Fund	10,226,413,048		
Retirement Reserve Fund	33,899,950,920		
Contributory Group Insurance Premium Fund	260,203,747		
Pension Accumulation Fund	6,085,389,342		
Pension Reserve Fund	24,544,842		
Reserve Fund	3,311,331	26,578,664	(54,495,168)
Post-Retirement Medical Fund	110,448,209		
Benefit Enhancement Reserve Fund	1,272,678,739		
Variable Accumulation Reserve Account	1,160,912,721		
Variable Benefits Reserve Account	28,489,147		
Total	**$ 67,121,669,999**	**$ 26,578,664**	**($54,495,168)**

(6) UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Division establishes a liability for both reported and unreported claims, which includes estimates of future payments of claims and related claim adjustment expenses. The following represent changes in those aggregate liabilities for governmental activities and business-type activities during the fiscal year 2002 and 2001:

Fiscal Year 2002

LOCAL	HEALTH BENEFITS PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Unpaid claims at beginning of year	$ 185,526,140	$ 2,245,015
Incurred claims:		
Provision for insured events of current year	1,172,431,169	39,654,401
Payments	(1,163,533,979)	(38,649,416)
Unpaid claims at end of year	$ 194,423,330	$ 3,250,000

Fiscal Year 2001

LOCAL	HEALTH BENEFITS PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Unpaid claims at beginning of year	$ 152,907,925	$ 1,367,000
Incurred claims:		
Provision for insured events of current year	1,001,997,519	27,381,065
Payments	(969,379,304)	(26,503,050)
Unpaid claims at end of year	$ 185,526,140	$ 2,245,015

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Funding Progress

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)						
June 30, 1996	$ 283,199,734	$ 283,199,734	$ —	100.0%	$ 47,587,950	0.0%
June 30, 1997	317,289,094	295,150,638	(22,138,456)	107.5%	46,912,950	(47.2%)
June 30, 1998	333,437,794	305,779,217	(27,658,577)	109.0%	48,196,350	(57.4%)
June 30, 1999	352,858,160	313,873,659	(38,984,501)	112.4%	48,886,350	(79.7%)
June 30, 2000	374,486,433	350,920,345	(23,566,088)	106.7%	55,514,214	(42.5%)
June 30, 2001	379,592,346	372,760,069	(6,832,277)	101.8%	57,800,334	(11.8%)
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND (CPFPF)						
June 30, 1996	$ 78,769,717	$ 73,694,514	$(5,075,203)	106.9%	N/A	N/A
June 30, 1997	70,420,937	66,004,245	(4,416,692)	106.7%	N/A	N/A
June 30, 1998	62,205,001	59,272,789	(2,932,212)	104.9%	N/A	N/A
June 30, 1999	54,018,660	52,226,208	(1,792,452)	103.4%	N/A	N/A
June 30, 2000	46,078,644	46,544,429	465,785	99.0%	N/A	N/A
June 30, 2001	38,656,261	41,658,355	3,002,094	92.8%	N/A	N/A
POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)						
June 30, 1996	$ 10,959,178,731	$ 12,076,365,067	$ 1,117,186,336	90.7%	$ 1,967,863,025	56.8%
State						
June 30, 1997	1,183,747,522	1,234,959,165	51,211,643	95.9%	315,690,310	16.2%
June 30, 1998	1,559,131,933	1,377,734,455	(181,397,478)	113.2%	346,079,078	(52.4%)
June 30, 1999	1,717,248,151	1,534,470,501	(182,777,650)	111.9%	362,949,950	(50.4%)
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1%	363,360,250	(60.0%)
June 30, 2001	1,991,299,968	1,866,140,391	(125,159,577)	106.7%	398,118,379	(31.4%)
Local						
June 30, 1997	10,854,173,290	11,746,169,752	891,996,462	92.4%	1,767,762,346	50.5%
June 30, 1998	13,169,957,658	12,881,842,367	(288,115,291)	102.2%	1,870,322,787	(15.4%)
June 30, 1999	14,536,570,357	13,894,951,617	(641,618,740)	104.6%	1,971,087,124	(32.6%)
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.8%	2,055,781,766	(35.0%)
June 30, 2001	16,083,153,842	16,056,446,646	(26,707,196)	100.2%	2,163,590,060	(1.2%)
PRISON OFFICER'S PENSION FUND (POPF)						
June 30, 1996	$ 18,654,334	$ 18,654,334	$ —	100.0%	N/A	N/A
June 30, 1997	20,977,035	17,479,545	(3,497,490)	120.0%	N/A	N/A
June 30, 1998	20,096,072	16,430,313	(3,665,759)	122.3%	N/A	N/A
June 30, 1999	19,137,919	15,292,629	(3,845,290)	125.1%	N/A	N/A
June 30, 2000	18,268,489	14,216,588	(4,051,901)	128.5%	N/A	N/A
June 30, 2001	18,269,899	12,994,567	(5,275,332)	140.6%	N/A	N/A

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information
Schedule of Funding Progress

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						
March 31, 1996	$ 6,565,471,539	$ 6,225,818,232	$ (339,653,307)	105.5%	$ 2,762,479,385	(12.3%)
March 31, 1997	6,987,217,172	6,606,707,924	(380,509,248)	105.8%	2,714,991,457	(14.0%)
March 31, 1998	7,600,621,930	7,155,035,122	(445,586,808)	106.2%	2,805,791,909	(15.9%)
June 30, 1999	8,879,920,323	7,823,576,056	(1,056,344,267)	113.5%	2,928,470,790	(36.1%)
June 30, 2000	9,743,727,383	8,538,685,222	(1,205,042,161)	114.1%	3,094,280,664	(38.9%)
June 30, 2001	11,123,818,861	9,886,463,368	(1,237,355,493)	112.5%	3,288,383,788	(37.6%)
Local						
March 31, 1996	9,919,779,257	8,960,275,181	(959,504,076)	110.7%	4,301,404,278	(22.3%)
March 31, 1997	10,523,061,499	9,599,816,842	(923,244,657)	109.6%	4,407,751,955	(20.9%)
March 31, 1998	11,486,495,310	10,286,532,879	(1,199,962,431)	111.7%	4,513,357,772	(26.6%)
June 30, 1999	13,171,311,650	11,163,283,877	(2,008,027,773)	118.0%	4,655,241,261	(43.1%)
June 30, 2000	14,380,511,913	12,007,160,806	(2,373,351,107)	119.8%	4,910,962,708	(48.3%)
June 30, 2001	16,625,288,260	13,819,038,491	(2,806,249,769)	120.3%	5,240,338,738	(53.6%)
STATE POLICE RETIREMENT SYSTEM (SPRS)						
June 30, 1996	$1,219,615,207	$ 1,187,387,033	$ (32,228,174)	102.7%	$ 142,390,519	(22.6%)
June 30, 1997	1,322,406,703	1,272,242,451	(50,164,252)	103.9%	142,636,260	(35.2%)
June 30, 1998	1,458,600,992	1,369,277,968	(89,323,024)	106.5%	167,145,161	(53.4%)
June 30, 1999	1,600,165,104	1,469,144,146	(131,020,958)	108.9%	178,203,420	(73.5%)
June 30, 2000	1,752,423,441	1,512,909,805	(239,513,636)	115.8%	188,466,237	(127.1%)
June 30, 2001	1,829,414,353	1,626,631,656	(202,782,697)	112.5%	199,727,203	(101.5%)
TEACHERS' PENSION AND ANNUITY FUND (TPAF)						
March 31, 1996	$ 20,843,247,418	$ 19,828,428,735	$ (1,014,818,683)	105.1%	$ 5,594,150,132	(18.1%)
March 31, 1997	22,045,481,579	21,224,484,588	(820,996,991)	103.9%	5,771,763,164	(14.2%)
March 31, 1998	24,478,860,383	23,484,403,450	(994,456,933)	104.2%	5,989,748,156	(16.6%)
June 30, 1999	27,457,451,678	25,546,083,289	(1,911,368,389)	107.5%	6,254,198,406	(30.6%)
June 30, 2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.2%	6,571,641,181	(42.6%)
June 30, 2001	35,351,379,511	32,745,357,185	(2,606,022,326)	108.0%	6,948,381,383	(37.5%)

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent 2001 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, closed	Level dollar, closed
Remaining amortization period	31 years	1 year
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	—
Cost-of-living adjustments	2.40%	—
Valuation date	June 30, 2001	June 30, 2001

	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 percent, closed	Level dollar, closed
Remaining amortization period	30 years	1 years
Actuarial assumptions:		
Interest rate	8.75%	5.00%
Salary range	5.95%	—
Cost-of-living adjustments	2.40%	—
Valuation date	June 30, 2001	June 30, 2001

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

	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 percent, closed	Level dollar, closed
Payroll growth rate for amortization	5.00%	-
Remaining amortization period	40 years for UAAL balance 10 years for asset method change	31 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%
Valuation date	June 30, 2001	June 30, 2001

	TPAF
Actuarial cost method	Projected unit credit
Asset valuation method	5 year average of market value
Amortization method	Level percent, closed
Payroll growth rate for amortization	5.00%
Remaining amortization period	40 years for UAAL balance 10 years for asset method change
Actuarial assumptions:	
Interest rate	8.75%
Salary range	5.95%
Cost-of-living adjustments	2.40%
Valuation date	June 30, 2001

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
JUDICIAL RETIREMENT SYSTEM			
1997	$ 18,406,865	$ 110,483,753	600.2%
1998	14,658,095	13,478,708	92.0%
1999	13,416,851	—	0.0%
2000	13,407,153	—	0.0%
2001	12,816,557	—	0.0%
2002	15,575,602	—	0.0%
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND			
1997	$ 10,580,991	$ 43,995,746	415.8%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	550,864	506,541	92.0%
POLICE AND FIREMEN'S RETIREMENT SYSTEM			
State			
1997	$ 111,775,028	$ 715,344,385	640.0%
1998	84,167,834	73,587,848	87.4%
1999	93,920,617	23,730,087	25.3%
2000	98,974,449	60,521,749	61.1%
2001	95,883,272	—	0.0%
2002	103,580,989	—	0.0%
Local			
1997	250,220,580	234,963,865	93.9%
1998	238,002,765	223,491,008	93.9%
1999	273,210,113	256,551,862	93.9%
2000	275,790,739	214,164,848	77.7%
2001	249,746,232	75,670,018	30.3%
2002	248,754,078	185,415	0.1%
PRISON OFFICERS' PENSION FUND			
1997	$ 2,949,604	$ 21,688,219	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	N/A

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
PUBLIC EMPLOYEES' RETIREMENT SYSTEM			
State			
1997	$ 134,878,582	$ 241,106,642	178.8%
1998	78,833,287	—	0.0%
1999	86,945,810	—	0.0%
2000	103,033,425	—	0.0%
2001	85,078,620	—	0.0%
2002	88,911,187	—	0.0%
Local			
1997	142,672,255	67,476,771	47.3%
1998	84,639,988	19,034,673	22.5%
1999	111,886,040	19,599,153	17.5%
2000	112,800,127	20,541,177	18.2%
2001	88,717,727	21,670,774	24.4%
2002	77,254,063	16,174,534	20.9%
STATE POLICE RETIREMENT SYSTEM			
1997	$ 44,384,679	$ 120,308,862	271.1%
1998	33,317,314	—	0.0%
1999	33,116,255	—	0.0%
2000	33,598,843	—	0.0%
2001	35,341,259	—	0.0%
2002	24,990,652	—	0.0%
TEACHERS' PENSION AND ANNUITY FUND			
1997	$ 372,060,546	$ 1,601,688,633	430.5%
1998	297,219,462	—	0.0%
1999	314,671,482	258,816,649	82.2%
2000	368,904,564	—	0.0%
2001	—	—	N/A
2002	—	—	N/A

Notes to schedule:

For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

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

The local employer contribution to the PERS from 1998 to 2002 represents required contributions under the early retirement incentive programs.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information -
Schedule of Loss Development Information

June 30, 2002

HEALTH BENEFITS PROGRAM FUND - LOCAL		FISCAL YEAR ENDED JUNE 30 2002
Premiums and investment revenue		
Earned	$	1,117,996,801
Estimated losses and expenses		1,177,907,043

PRESCRIPTION DRUG PROGRAM FUND - LOCAL		FISCAL YEAR ENDED JUNE 30 2002
Premiums and investment revenue		
Earned	$	42,993,261
Estimated losses and expenses		39,659,802

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Administrative Expenses

Year ended June 30, 2002

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	NJSEDCP	TOTAL
Personnel Services									
Salaries & Wages	$ 8,669,138	4,329,711	1,501,320	25,610	4,933	103,490	17,480	375,488	$ 15,027,170
Employee Benefits	2,240,972	1,119,230	388,091	6,620	1,275	26,752	4,519	103,350	3,890,809
Total Personnel Services	10,910,110	5,448,941	1,889,411	32,230	6,208	130,242	21,999	478,838	18,917,979
Professional Services									
Actuarial Services	626,807	245,207	373,309	6,167	1,233	25,901	4,522	—	1,283,146
Data Processing	1,613,452	805,822	279,417	4,766	911	14,496	1,949	134,380	2,855,193
Information Systems	2,372,359	1,184,850	410,845	7,008	1,344	28,314	4,784	24,451	4,033,955
Other Professional**	317,540	158,592	54,992	938	175	3,784	640	—	536,661
Medical Review*	252,006	47,420	187,625	—	—	8,918	—	—	495,969
Elections*	164,210	—	37,184	—	—	—	—	—	201,394
Internal Audit & Legal	480,620	240,041	83,234	1,420	271	5,738	969	—	812,293
Total Professional Services	5,826,994	2,681,932	1,426,606	20,299	3,934	87,151	12,864	158,831	10,218,611
Communication									
Travel	20,776	32,102	7,662	52	10	254	35	3,643	64,534
Telephone	145,754	72,795	25,242	431	83	1,740	294	2,290	248,629
Postage	552,728	276,054	95,721	1,633	315	6,598	1,115	34,346	968,510
Motor Pool	12,296	6,141	2,129	36	7	147	25	—	20,781
Printing & Office	349,424	175,244	59,214	1,208	379	6,216	974	9,959	602,618
Total Communication	1,080,978	562,336	189,968	3,360	794	14,955	2,443	50,238	1,905,072
Miscellaneous									
Office Space	1,544,506	771,388	267,477	4,563	879	18,438	3,114	9,813	2,620,178
Maintenance	404,528	72,190	77,738	135	26	547	92	—	555,256
Equipment	205,731	102,750	35,629	1,455	460	2,456	415	5,007	353,903
Other Services & Charges	17,723	8,853	3,069	52	10	210	37	1,696	31,650
Total Miscellaneous	2,172,488	955,181	383,913	6,205	1,375	21,651	3,658	16,516	3,560,987
Total Administrative Expense	$ 19,990,570	9,648,390	3,889,898	62,094	12,311	253,999	40,964	704,423	$ 34,602,649

* Consulting

**Portion of Consulting

Schedule 5

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Investment Expenses

Year ended June 30, 2002

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	NJSEDCP	TOTAL
Investment Expense	$ 3,649,458	1,799,080	635,452	12,660	2,298	42,769	7,265	154,807	$ 6,303,789
Global Custody, Fees	1,105,113	1,548,984	755,438	—	—	92,885	19,867	—	3,522,287
Total Investment Expenses	$ 4,754,571	3,348,064	1,390,890	12,660	2,298	135,654	27,132	154,807	$ 9,826,076

Schedule 6

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Expenses for Consultants

Year ended June 30, 2002

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	TOTAL
Actuarial								
Buck Consultants	$ 626,807	—	373,309	6,167	1,233	25,901	4,522	$ 1,037,939
Milliman USA	—	245,207	—	—	—	—	—	245,207
Exams/Hearings	252,006	47,420	187,625	—	—	8,918	—	495,969
Death Matching Services								
Comserv Inc.	4,169	2,081	721	12	2	49	13	7,047
Unemployment Contract								
Gates McDonald	26,258	13,107	4,561	—	—	310	44	44,280
Elections								
Corporate Marketing	164,210	—	37,184	—	—	—	—	201,394
Total Expenses for Consultants	$ 1,073,450	307,815	603,400	6,179	1,235	35,178	4,579	$ 2,031,836

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2002

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Assets			
Assets:			
Cash and cash equivalents	$ 344,606	—	$ 344,606
Investments, at fair value:			
Cash Management Fund	2,130,111,819	3,298,467	2,133,410,286
Bonds	633,228,683	1,138,034	634,366,717
Common Pension Fund A	28,865,400,740	50,291,890	28,915,692,630
Common Pension Fund B	18,197,480,946	33,102,094	18,230,583,040
Common Pension Fund D	11,072,183,267	19,124,999	11,091,308,266
Common and preferred stocks	785,657,548	—	785,657,548
Mortgages	3,002,173,074	3,492,725	3,005,665,799
Total investments	64,686,236,077	110,448,209	64,796,684,286
Receivables:			
Contributions:			
Members	161,128,134	—	161,128,134
Employers	940,510,702	—	940,510,702
Accrued interest and dividends	397,003,285	—	397,003,285
Members' loans	1,209,950,086	—	1,209,950,086
Other	21,808,516	—	21,808,516
Total receivables	2,730,400,723	—	2,730,400,723
Total assets	$ 67,416,981,406	110,448,209	$ 67,527,429,615
Liabilities			
Liabilities:			
Accounts payable and accrued expenses	$ 44,226,248	—	$ 44,226,248
Retirement benefits payable	327,307,524	—	327,307,524
NCGI premiums payable	29,993,247	—	29,993,247
Cash overdraft	4,232,597	—	4,232,597
Total liabilities	405,759,616	—	405,759,616
Net assets held in trust for pension and post-retirement medical benefits	$ 67,011,221,790	110,448,209	$ 67,121,669,999

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STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2002

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Additions:			
Contributions:			
Members	$ 1,057,608,080	—	$ 1,057,608,080
Employers	295,410,822	—	295,410,822
Other	13,582,036	—	13,582,036
Total contributions	1,366,600,938	—	1,366,600,938
Investment income:			
Net appreciation (depreciation) in fair value of investments	(8,114,425,273)	(44,447,686)	(8,158,872,959)
Interest	1,754,080,952	—	1,754,080,952
Dividends	453,039,382	—	453,039,382
	(5,907,304,939)	(44,447,686)	(5,951,752,625)
Less investment expense	9,826,076	—	9,826,076
Net investment income	(5,917,131,015)	(44,447,686)	(5,961,578,701)
Total additions	(4,550,530,077)	(44,447,686)	(4,594,977,763)
Deductions:			
Benefits	3,862,892,779	338,967,280	4,201,860,059
Refunds of contributions	99,592,876	—	99,592,876
Administrative expenses	34,602,649	—	34,602,649
Total deductions	3,997,088,304	338,967,280	4,336,055,584
Net decrease	(8,547,618,381)	(383,414,966)	(8,931,033,347)
Net assets held in trust for pension and post-retirement medical benefits:			
Beginning of year	75,558,840,171	493,863,175	76,052,703,346
End of year	$ 67,011,221,790	110,448,209	$ 67,121,669,999

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

June 30, 2002

	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND	DEFERRED COMPENSATION FUND	JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS PENSION FUND
Assets:							
Cash	$ —	37,576	156,979	69,837	17,102	—	42,332
Investments, at fair value:							
Cash Management Fund	4,765,493	11,276	14,607,768	224,394,713	8,337,177	318,445,673	5,352,431
Bonds	—	—	4,324,304	187,420,617	—	18,198,484	7,629,700
Common Pension Fund A	—	—	—	—	134,746,225	6,459,001,400	—
Common Pension Fund B	—	—	—	—	77,935,219	3,554,435,308	—
Common Pension Fund D	—	—	—	—	62,466,728	2,376,552,698	—
Common and Preferred Stocks	—	—	—	647,377,231	—	—	—
Mortgages	—	—	3,668,821	—	22,236,513	1,410,456,805	4,844,551
Total investments	4,765,493	11,276	22,600,893	1,059,192,561	305,721,862	14,137,090,368	17,826,682
Receivables:							
Contributions:							
Members	—	—	—	86,358	64,740	44,799,031	—
Employers	—	—	—	—	—	532,733,506	—
Accrued interest and dividends	—	13	98,773	3,335,632	1,766,016	86,991,470	—
Members' loans	—	—	—	—	584,810	468,079,428	—
Other	—	2,458	3,419,654	—	—	14,274,587	294,520
Total receivables	—	2,471	3,518,427	3,421,990	2,415,566	1,146,878,022	294,520
Total assets	$ 4,765,493	51,323	26,276,299	1,062,684,388	308,154,530	15,283,968,390	18,163,534
Liabilities:							
Accounts payable and accrued expenses	$ 1,454,162	16,877	41,882	718,044	326,955	1,764,845	1,445
Retirement benefits payable	—	34,446	1,689,575	13,378,878	2,051,535	70,611,067	253,637
NCGI premiums payable	—	—	—	—	—	4,958,494	—
Cash overdraft	—	—	—	—	—	1,589,624	—
Total liabilities	1,454,162	51,323	1,731,457	14,096,922	2,378,490	78,924,030	255,082
Net assets held in trust for pension and post-retirement medical benefits	$ 3,311,331	—	24,544,842	1,048,587,466	305,776,040	15,205,044,360	17,908,452

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

June 30, 2002

	PUBLIC EMPLOYEES RETIREMENT SYSTEM	PERS POST RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS PENSION AND ANNUITY FUND	TPAF POST RETIREMENT MEDICAL FUND	TOTAL
Assets:							
Cash	—	—	20,780	—	—	—	$ 344,606
Investments, at fair value:							
Cash Management Fund	547,458,853	1,751,724	64,877,660	2,517,369	939,343,406	1,546,743	2,133,410,286
Bonds	292,062,291	934,523	—	—	123,593,287	203,511	634,366,717
Common Pension Fund A	9,469,749,791	30,300,709	661,178,664	—	12,140,724,660	19,991,181	28,915,692,630
Common Pension Fund B	6,362,426,820	20,358,092	463,199,968	—	7,739,483,631	12,744,002	18,230,583,040
Common Pension Fund D	3,471,196,393	11,106,915	292,552,745	—	4,869,414,703	8,018,084	11,091,308,266
Common and Preferred Stocks	—	—	—	138,280,317	—	—	785,657,548
Mortgages	644,574,127	2,062,468	47,791,337	—	868,600,920	1,430,257	3,005,665,799
Total investments	20,787,468,275	66,514,431	1,529,600,374	140,797,686	26,681,160,607	43,933,778	64,796,684,286
Receivables:							
Contributions:							
Members	51,994,449	—	934,009	484,252	62,765,295	—	161,128,134
Employers	203,751,526	—	—	—	204,025,670	—	940,510,702
Accrued interest and dividends	132,790,054	—	9,411,143	169,757	162,440,427	—	397,003,285
Members' loans	453,087,166	—	32,160,087	—	256,038,595	—	1,209,950,086
Other	3,254,149	—	30,203	506,966	25,979	—	21,808,516
Total receivables	844,877,344	—	42,535,442	1,160,975	685,295,966	—	2,730,400,723
Total assets	21,632,345,619	66,514,431	1,572,156,596	141,958,661	27,366,456,573	43,933,778	$ 67,527,429,615
Liabilities:							
Accounts payable and accrued expenses	23,790,049	—	494,880	236,374	15,380,735	—	$ 44,226,248
Retirement benefits payable	103,272,186	—	6,360,467	450,025	129,205,708	—	327,307,524
NCGI premiums payable	18,486,585	—	—	—	6,548,168	—	29,993,247
Cash overdraft	1,064,214	—	—	457,860	1,120,899	—	4,232,597
Total liabilities	146,613,034	—	6,855,347	1,144,259	152,255,510	—	405,759,616
Net assets held in trust for pension and post-retirement medical benefits	21,485,732,585	66,514,431	1,565,301,249	140,814,402	27,214,201,063	43,933,778	$ 67,121,669,999

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

Year ended June 30, 2002

	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND	DEFERRED COMPENSATION FUND	JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS PENSION FUND
Additions:							
Contributions:							
Members	$ —	—	—	121,675,078	2,323,835	240,012,580	—
Employers	1,250,000	397,840	563,793	—	579,630	286,887,105	—
Other	—	27,897	12,199,213	—	—	—	1,348,993
Total contributions	1,250,000	425,737	12,763,006	121,675,078	2,903,465	526,899,685	1,348,993
Investment income:							
Net appreciation (depreciation) in fair value of investments	10,955	—	211,560	(131,290,133)	(38,868,925)	(1,758,360,537)	354,049
Interest	130,569	1,784	781,895	15,589,670	8,070,739	402,532,105	940,850
Dividends	—	—	—	9,331,525	2,070,705	98,248,724	—
	141,524	1,784	993,455	(106,368,938)	(28,727,481)	(1,257,579,708)	1,294,899
Less investment expense	—	—	12,660	154,807	27,132	1,390,890	2,298
Net investment income	141,524	1,784	980,795	(106,523,745)	(28,754,613)	(1,258,970,598)	1,292,601
Total additions	1,391,524	427,521	13,743,801	15,151,333	(25,851,148)	(732,070,913)	2,641,594
Deductions:							
Benefits	1,454,162	410,656	20,721,198	67,273,610	24,586,223	842,051,581	2,990,730
Refunds of contributions	—	16,865	—	—	35,979	6,271,845	—
Administrative expenses	—	—	62,094	704,423	40,964	3,889,898	12,311
Total deductions	1,454,162	427,521	20,783,292	67,978,033	24,663,166	852,213,324	3,003,041
Net decrease	(62,638)	—	(7,039,491)	(52,826,700)	(50,514,314)	(1,584,284,237)	(361,447)
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	3,373,969	—	31,584,333	1,101,414,166	356,290,354	16,789,328,597	18,269,899
End of year	$ 3,311,331	—	24,544,842	1,048,587,466	305,776,040	15,205,044,360	17,908,452

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

Year ended June 30, 2002

	PUBLIC EMPLOYEES RETIREMENT SYSTEM	PERS POST RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS PENSION AND ANNUITY FUND	TPAF POST RETIREMENT MEDICAL FUND	TOTAL
Additions:							
Contributions:							
Members	340,363,504	—	13,758,972	8,413,708	331,060,403	—	$ 1,057,608,080
Employers	1,208,577	—	389,092	—	4,134,785	—	295,410,822
Other	4,673	—	88	—	1,172	—	13,582,036
Total contributions	341,576,754	—	14,148,152	8,413,708	335,196,360	—	1,366,600,938
Investment income:							
Net appreciation (depreciation) in fair value of investments	(2,598,973,862)	(15,087,606)	(186,296,642)	(37,313,819)	(3,363,897,919)	(29,360,080)	(8,158,872,959)
Interest	583,563,248	—	41,029,466	112,138	701,328,488	—	1,754,080,952
Dividends	145,434,993	—	10,084,248	2,315,495	185,553,692	—	453,039,382
	(1,869,975,621)	(15,087,606)	(135,182,928)	(34,886,186)	(2,477,015,739)	(29,360,080)	(5,951,752,625)
Less investment expense	4,754,571	—	135,654	—	3,348,064	—	9,826,076
Net investment income	(1,874,730,192)	(15,087,606)	(135,318,582)	(34,886,186)	(2,480,363,803)	(29,360,080)	(5,961,578,701)
Total additions	(1,533,153,438)	(15,087,606)	(121,170,430)	(26,472,478)	(2,145,167,443)	(29,360,080)	(4,594,977,763)
Deductions:							
Benefits	1,272,122,263	86,038,027	74,808,612	17,886,559	1,538,587,185	252,929,253	4,201,860,059
Refunds of contributions	70,520,434	—	123,338	—	22,624,415	—	99,592,876
Administrative expenses	19,990,570	—	253,999	—	9,648,390	—	34,602,649
Total deductions	1,362,633,267	86,038,027	75,185,949	17,886,559	1,570,859,990	252,929,253	4,336,055,584
Net decrease	(2,895,786,705)	(101,125,633)	(196,356,379)	(44,359,037)	(3,716,027,433)	(282,289,333)	(8,931,033,347)
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	24,381,519,290	167,640,064	1,761,657,628	185,173,439	30,930,228,496	326,223,111	76,052,703,346
End of year	21,485,732,585	66,514,431	1,565,301,249	140,814,402	27,214,201,063	43,933,778	$ 67,121,669,999

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Balance Sheet
Fiduciary Funds - Agency Funds

June 30, 2002

	ALTERNATE BENEFIT PROGRAM FUND	PENSION ADJUSTMENT FUND	TOTAL
Assets			
Assets:			
Cash and cash equivalents	$ 334,523	25,509	$ 360,032
Investments, at fair value:			
Cash Management Fund	7,505,957	3,873,852	11,379,809
Total investments	7,505,957	3,873,852	11,379,809
Receivables:			
State related employer contributions	—	3,040,347	3,040,347
Other	2,176,399	—	2,176,399
Due from other funds	9,327,774	357,661	9,685,435
Total receivables	11,504,173	3,398,008	14,902,181
Total assets	$ 19,344,653	7,297,369	$ 26,642,022
Liabilities			
Liabilities:			
Accounts payable and accrued expenses	$ 16,679,007	—	$ 16,679,007
Assets held for state-related employers	—	3,844,137	3,844,137
Pension adjustment payroll payable	—	1,095,939	1,095,939
Due to State of New Jersey	2,665,646	518,891	3,184,537
Due to other funds	—	1,838,402	1,838,402
Total liabilities	$ 19,344,653	7,297,369	$ 26,642,022

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Changes in Fiduciary Net Assets
Agency Fund - Alternate Benefit Program Fund

Year ended June 30, 2002

	2002
Additions:	
Contributions:	
Members	$ 651,432
Employers	107,895,693
Total contributions	108,547,125
Investment income:	
Net appreciation (depreciation) in fair value of investments	14,564
Interest	2,087,807
Total investment income	2,102,371
Total additions	110,649,496
Deductions:	
Benefits	107,969,987
Refunds of contributions and due General Fund	2,679,509
Total deductions	$ 110,649,496

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Changes in Fiduciary Net Assets
Agency Fund - Pension Adjustment Fund

Year ended June 30, 2002

	2002
Additions:	
Contributions:	
Employers	$ 13,773,772
Total contributions	13,773,772
Investment income:	
Net appreciation (depreciation) in fair value of investments	8,262
Interest	267,602
Total investment income	275,864
Total additions	14,049,636
Deductions:	
Benefits	13,572,889
Refunds of contributions and due General Fund	476,747
Total deductions	$ 14,049,636

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