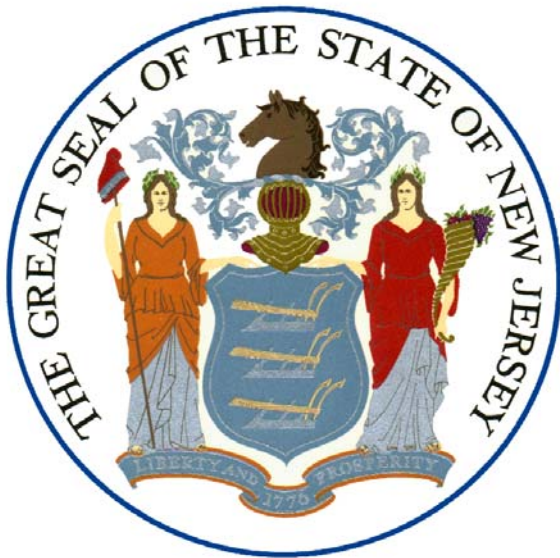


DIVISION OF PENSIONS AND BENEFITS

A Department of the State of New Jersey

COMPREHENSIVE ANNUAL FINANCIAL REPORT

*for the Fiscal Year Ended
June 30, 2011*



*Our mission is to provide
quality benefits and services
that meet the needs of our clients and others
we are committed to serve,
through our efficient and responsive workforce.*



Our Mission . . .

To provide quality benefits and services that meet the needs of our clients and others we are committed to serve, through our efficient and responsive workforce.

Our Vision . . .

WE will achieve client satisfaction through equitable, effective, responsive service, and clear and accessible communications that meet the needs of our clients.

WE will encourage and support an accomplished workforce that is knowledgeable, flexible, technically proficient and committed to excellence.

WE will be committed to working with executive and legislative agencies and governing boards to improve the design and implementation of the benefit programs.

WE will support technologies that simplify procedures and improve services, manage our resources in a responsible and creative manner, and hold contracted service providers to high standards.

WE will work with participating employers to enhance their role in the administration of benefits for their employees through integrated technology that allows them to access and process benefit information directly.

Our Values . . .

WE are customer-focused, recognizing each client individually.

WE acknowledge as our greatest asset our knowledgeable, hardworking, dedicated and caring staff.

WE are financially responsible in the administration, oversight, and delivery of our benefit programs.

WE are committed to providing quality, timely, accurate, efficient, and cost effective services.

WE are committed to creating and developing a quality work environment using state-of-the-art technologies, and processes that foster continuous

improvement of our organization through teamwork, motivation, and communication among staff.

Our Goals . . .

Customer Service —

TO create and maintain a customer focused work environment that anticipates and meets client needs.

Staff —

TO have a full complement of staff that is well trained, undergoes continual development, and is motivated to provide benefit services effectively and efficiently in a customer friendly manner.

Technology —

TO have an integrated, easily maintained and modified, information processing system that supports the efficient and effective delivery of services.

Planning —

TO have an effective planning system that facilitates improvement, anticipates change and properly focuses resources on priorities.

Benefits Processing —

TO provide benefits to clients in a timely and efficient manner.

Advocacy —

TO help structure a well-funded system of benefits that meets the needs of public employees and employers.

Oversight and Compliance —

TO administer programs with clear and consistent policies and procedures and provide oversight to safeguard fund assets and ensure benefit entitlement.

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

A DEPARTMENT OF THE STATE OF NEW JERSEY

56th COMPREHENSIVE ANNUAL FINANCIAL REPORT *For the Fiscal Year Ended June 30, 2011*

Chris Christie
Governor

Andrew P. Sidamon-Eristoff
State Treasurer

Florence J. Sheppard
Acting Director



STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
PO BOX 295
TRENTON, NJ 08625-0295
(609) 292-7524

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

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

INDEPENDENT AUDITOR

CLIFTON GUNDERSON LLP

309 Fellowship Road, Suite 200
Mt. Laurel, NJ 08054

ACTUARIAL REPORTS

BUCK CONSULTANTS

500 Plaza Drive
Secaucus, NJ 07096-1533

MILLIMAN

1550 Liberty Ridge Drive
Suite 200
Wayne, PA 19087-5572

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INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New Jersey Division of Pensions and Benefits

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



Linda C. Danison

President

Jeffrey R. Emer

Executive Director



CHRIS CHRISTIE
Governor



ANDREW P.
SIDAMON-ERISTOFF
State Treasurer



FLORENCE J. SHEPPARD
*Acting Director, Division
of Pensions and Benefits*



State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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www.state.nj.us/treasury/pensions

Mailing Address:
PO Box 295
Trenton, NJ 08625-0295
Location:
50 West State Street
Trenton, New Jersey

LETTER OF TRANSMITTAL

January 9, 2012

To the Honorable

Chris Christie, Governor
Andrew P. Sidamon-Eristoff, State Treasurer
Members of the Legislature
Members of the Boards of Trustees

On behalf of the Division of Pensions and Benefits, I am pleased to submit the 56th Comprehensive Annual Financial Report (CAFR) of the New Jersey State-administered retirement systems and related benefit programs for the fiscal year ended June 30, 2011. The management of the Division of Pensions and Benefits (the Division) is responsible for the accuracy of the data and the completeness and fairness of the presentation. To the best of my knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner that fairly represents the financial position and results of the Division's operations.

STRUCTURE OF THE CAFR

This comprehensive annual financial report is divided into five sections:

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

LETTER OF TRANSMITTAL

THE REPORTING ENTITY

The Division was established in 1955 as the Division of Pensions to provide all administration of the state pension funds except investments. The Division changed its name to the Division of Pensions and Benefits in 1992 to more accurately reflect its roles and responsibilities beyond the realm of pensions. Currently, the Division administers one of the largest non-federal public benefits program in the nation, consisting of ten separate retirement systems, three supplemental retirement savings programs, two health benefits programs for employees, retirees, and family members, and several other employee benefits programs. Over 792,112 members enjoy the benefits of the various pension systems administered by the Division, and over 851,000 lives are covered in the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). In addition to the State, 1,751 local public employers participate in the retirement systems, and 1,024 local employers participate in the SHBP and SEHBP.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Division's CAFR of last year for Excellence in Financial Reporting. A copy of the Certificate of Achievement is included in this CAFR.

MAJOR INITIATIVES

The enactment of major pension and health benefit reform legislation was an administrative challenge for the Division in 2011. Chapters 1 and 2, P.L. 2010, which made various changes to pension and health benefits for public employees, were successfully implemented by the Division. Chapter 52, P.L. 2011 required certifying officers to complete training on retirement system enrollment eligibility. Sweeping pension and benefits reform, Chapter 78, P.L. 2011, was enacted at the end of the fiscal year. Finally, the Division continued to focus on technology improvements in the customer service areas in an effort to provide additional electronic processing for both members and employers. As a result of new legislation and technology enhancements, the following initiatives were implemented:

Chapter 1, P.L. 2010 — This law makes a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the Public Employees Retirement System (PERS), special retirement under the Police and Firemen's Retirement System (PFRS), and employer contributions to the retirement systems.

Chapter 2, P.L. 2010 — This law makes changes to the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP) concerning eligibility, cost sharing, choice of a plan, the application of benefit changes, the waiver of coverage, and multiple coverage under such plans. It also requires contributions toward the cost of health care benefits coverage by public employees and certain retirees.

Chapter 52 Employer Enrollment Training — The enactment of P.L. 2011 c. 52, establishes new procedures and online employer training requirements for the enrollment and/or transfer of employees into the State-administered retirement systems. The provisions of the law became effective June 19, 2011. Implementation required changes in the Enrollment applications for all pension funds. An online training modular was developed for employers to complete to satisfy the mandatory training requirement of the law.

Interactive Voice Response System (IVR) — The existing hardware and software for the IVR was replaced and the new system shares hardware and software resources with the Department of Labor. The IVR system provides members and employers with the ability to obtain pension and health plan information, and process a loan over the telephone. There are 26 applications available to assist members and employers.

LETTER OF TRANSMITTAL

Web Enhancement Project — The WEB Enhancement Project involved two components; 1) upgrade the Division’s static web pages, 2) upgrade the inquiry and transactional web pages of Employee Pension Information Connection (EPIC) and Member Benefits Online System (MBOS). This project has been organized into 26 sub-application components. There are 15 applications that are currently in use; eleven applications are in progress.

Auto Response System for E-mails — The Division expanded the Siebel automated e-mail response system with 71 categories to respond to common questions. As a result, e-mails that require a response from a counselor have decreased. The business benefit of the auto response system provides that both members and employers receive immediate responses to those issues that are routine in nature. Complex inquiries are forwarded to counselors for a more detailed response.

FINANCIAL INFORMATION

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

The Fiduciary Funds include twelve separate pension trust funds, three health benefit program funds, and three agency funds. A summary of the condition of the funds administered by the Division of Pensions and Benefits is located in the “Management Discussion and Analysis” that begins on page 43 of the CAFR. Management is responsible for establishing and maintaining the accounting systems complete with internal controls so that the data presented is complete and fairly presents the financial position of the Division as of June 30, 2011. Clifton Gunderson LLP independently audited the funds.

INVESTMENTS

The Division of Investment has the responsibility for investing the assets of the programs administered by the Division. This is done under the jurisdiction of the State Investment Council. Investments are guided by the “prudent person rule”. During FY 2011 investment returns on pension funds were +18.03 percent. When combined with the returns for previous years, the annualized returns over the past three, five and ten-year periods were +4.18 percent, +5.23 percent, and +5.20 percent, respectively.

FUNDING

A fully funded system that has assets sufficient to meet the retirement benefit schedules is one that instills confidence and trust. While employer funding obligations have been difficult to meet over the past several years due to conflicting budgetary priorities, the enactment of Chapter 1, P.L. 2010 and Chapter 78, P.L. 2011 have charted a long term path which is projected to result in improved funded levels over a thirty year period.

PROFESSIONAL SERVICES

The Division contracts with several professional organizations for advice and assistance in administering the programs for which it is responsible. The list of these organizations is found on page 100 of the CAFR. The Office of the Attorney General provides all legal services required by the Division of Pensions and Benefits and the retirement system Boards of Trustees.

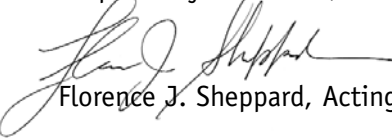
ACKNOWLEDGEMENTS

The preparation of the CAFR required the combined efforts of many employees from different operational units within the Division. The CAFR is intended to provide extensive and reliable information to facilitate informed

LETTER OF TRANSMITTAL

decisions, determine compliance with legal requirements, and determine responsible stewardship for the assets contributed by the systems' members, participating employers, and the taxpayers of the State. I would like to take this opportunity to express my gratitude to the Governor, the Legislature, the Treasurer, the Boards of Trustees, the individuals providing professional services, participating employer benefits administrators, and to the outstanding employees of the Division for all their efforts and support. Such concerted effort has resulted in making New Jersey's public benefits system one of the largest and best administered in the nation.

Respectfully submitted,



Florence J. Sheppard, Acting Director

ALL IN A YEAR'S WORK...

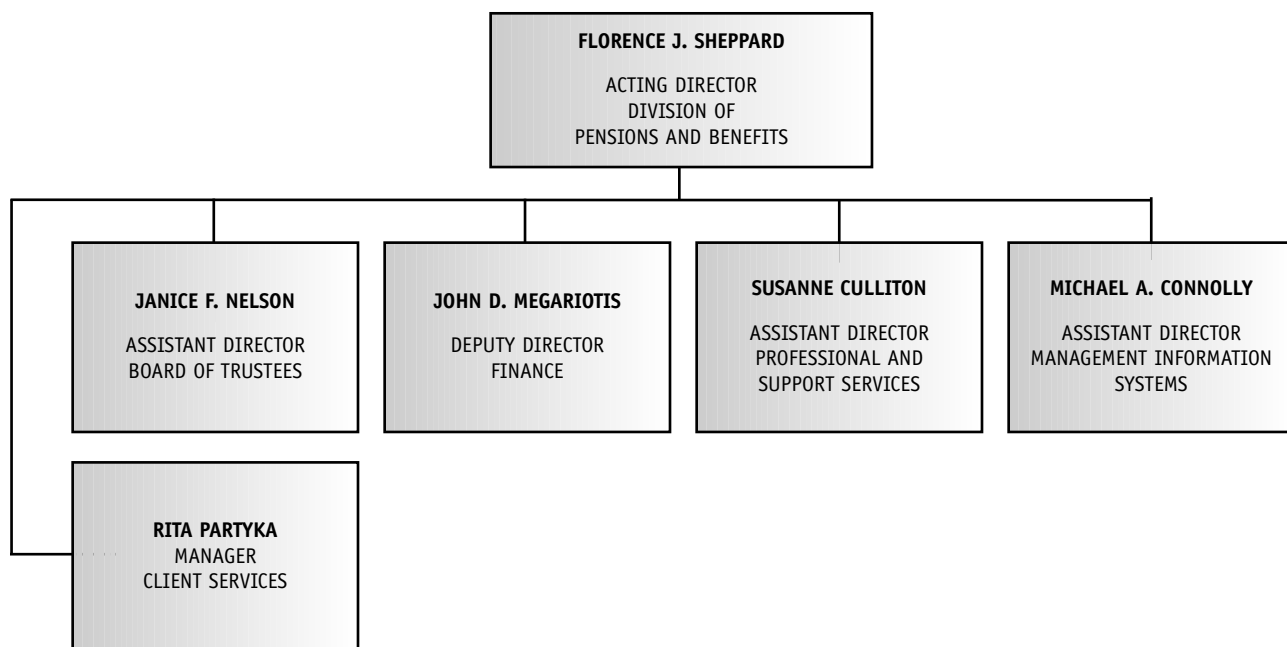
- There are **517,258 ACTIVE MEMBERS** in the combined retirement systems.
- There are **1,778 PARTICIPATING EMPLOYERS** in the combined retirement systems; **6 NEW EMPLOYERS** began participating this year.
- There are **440,942 INDIVIDUAL RETIREMENT SYSTEM MEMBER ACCOUNTS** being maintained; **8,419 MEMBER ACCOUNTS** were audited internally.
- A total of **274,854 RETIREES AND BENEFICIARIES** received monthly pensions totaling in excess of **\$7.7 BILLION** annually.
- Over **9,016 BENEFICIARY CLAIMS** were processed. Premiums in excess of **\$218 MILLION** were paid to the insurance carrier on behalf of active and retired members.
- Over **318,000 TELEPHONE CALLS** were received in Client Services. Counselors handled over **207,749** calls; over **1,244,354** calls were handled by our automated telephone systems.
- **25,754 PERSONAL INTERVIEWS** were conducted by pension counselors.
- **14,548 SERVICE PURCHASE REQUESTS** were processed.
- **20,565 NEW ENROLLMENTS OR TRANSFERS** were processed in our retirement systems.
- There were **11,538 WITHDRAWALS** from the retirement systems.
- **22,914 MEMBERS RETIRED.**
- Over **118,602 PENSION LOANS** totaling **\$619,610,134** were processed.
- State and local membership in the State Health Benefits Program and School Employees' Health Benefits Program was **394,016 MEMBERS** with **841,291 LIVES COVERED.**
- A total of over **\$4.8 BILLION IN PREMIUMS** was collected from State and local State Health Benefits Program employers, School Employees' Health Benefits Program employers, and combined employees. **1,068 LOCAL EMPLOYERS** elected to participate in the SHBP or SEHBP this year.

ORGANIZATION



EXECUTIVE MANAGEMENT TEAM

Front Row (left to right): Janice F. Nelson, *Assistant Director, Board of Trustees*;
Florence J. Sheppard, *Acting Director*; John D. Megariotis, *Deputy Director, Finance*
Back Row (left to right): Michael A. Connolly, *Assistant Director, Management Information Systems*;
Rita Partyka, *Manager, Client Services*; Susanne Culliton, *Assistant Director, Professional and Support Services*



ORGANIZATION



CHIEFS AND MANAGERS

Seated, First Row (left to right): Wendy Jamison – *Boards of Trustees*; Frank Corliss – *MIS*;
Rita Partyka – *Client Services*;

Second Row (left to right): David Pointer – *Health Benefits*; Michael Weik – *Administrative Services*;
Francis Peterson — *Financial Reporting, Payments, and Collections*;
Joseph Zisa – *Defined Benefit and Contribution Plans*;
Timothy McMullen – *Budget and Compliance*;

Absent: Mark Schwedes - *Enrollments and Purchases*

DIRECTOR

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

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

OFFICE OF OPERATIONS

The work of this office, overseen by a Deputy Director, is divided among three bureaus: Enrollment and Purchase; Claims; and Retirement.

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

OFFICE OF HEALTH BENEFITS

This office, overseen by a Deputy Director, consists of two elements: the Health Benefits Bureau and the Office of Policy Planning. The Health Benefits Bureau processes all enrollments, changes, and terminations for active and retired members of the State Health Benefits Program. In addition, this bureau is responsi-

ORGANIZATION

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

OFFICE OF FINANCIAL SERVICES

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

The Office of Financial Services is charged with the custodianship of pension and health benefits assets. These assets are in excess of \$81 billion and include over 792,112 individual member accounts. The office is responsible for the accounting and budget functions necessary for the successful operations of the various pension funds, health benefits and agency funds, as well as the administration of the Pension Adjustment Program, the Supplemental Annuity Collective Trust, and Deferred Compensation Plan.

OFFICE OF CLIENT SERVICES

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

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

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

OFFICE OF MANAGEMENT INFORMATION AND SUPPORT SERVICES

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

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

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

OFFICE OF PROFESSIONAL SERVICES

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

OFFICE OF BOARD OF TRUSTEES ADMINISTRATION

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

The Boards and Commissions have the general responsibility for the proper operation of their respective employee benefits program. The Boards adopt rules in

ORGANIZATION

compliance with statute and advice of the Attorney General. The Boards may grant hearing in disputes concerning issues of law or fact. Hearings are held by the Office of Administrative Law.

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

ACTUARIAL ADVISORS

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

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

LEGAL ADVISOR

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

MEDICAL ADVISORS

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

ORGANIZATION — BOARDS OF TRUSTEES



PUBLIC EMPLOYEES' RETIREMENT SYSTEM

- Seated: Thomas Bruno, Jr.
(l to r) Leon Flanagan, *Chairperson*
- Standing: Jackie Bussanich, *Administrative Assistant*
(l to r) Susanne Culliton, *State Treasurer's Representative*
Kathleen Coates, *Board Secretary*
John Lowden
Suzanna Buriani-DeSantis
Kellie Kiefer-Pushko, *Deputy Attorney General*
Edward (Ned) Thomson, III
- Absent: Ronald Winthers
Peter Maurer



TEACHERS' PENSION AND ANNUITY FUND

- Seated: Martha Liebman
(l to r) James Joyner, *Chairperson*
Susanne Culliton, *State Treasurer's Representative*
- Standing: Jackie Bussanich, *Administrative Assistant*
(l to r) Jeff Ignatowitz, *Deputy Attorney General*
Paul Orihel
Dennis Testa
H. O'Neill Williams
Mary Ellen Rathbun, *Board Secretary*



POLICE AND FIREMEN'S RETIREMENT SYSTEM

- Seated: Marty Barrett
(l to r) Richard Mikutsky
John Sierchio, *Chairperson*
Wayne Hall
- Standing: Michael Postorino
(l to r) Lisa Pointer, *Administrative Assistant*
Laurel Brennan
Richard Loccke
Susanne Culliton, *State Treasurer's Representative*
Vincent Foti
Wendy Jamison, *Board Secretary*
Kellie Kiefer-Pushko, *Deputy Attorney General*
Sherryl Gordon
Frank Leake

ORGANIZATION — BOARDS OF TRUSTEES



STATE POLICE RETIREMENT SYSTEM

Seated: Major Thomas Soucek
(l to r) Major Karl Kleeberg, *Chairperson*
Wendy Jamison, *Board Secretary*

Standing: Jeffrey Ignatowitz, *Deputy Attorney General*
(l to r) Susanne Culliton, *State Treasurer's Representative*
Jack Sayers
Lisa Pointer, *Administrative Assistant*

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST COUNCIL

John Megariotis, *Chairperson, Representing Andrew P. Sidamon-Eristoff, Treasurer, State of New Jersey*
Kathy Steepy, *Representing Charlene Holzbaur, Director, Office of Management and Budget*
Timothy Costello, *Representing Thomas B. Constance, Commissioner, Department of Banking and Insurance*

DEFERRED COMPENSATION BOARD

David Ridolfino, *Chairperson, Representing Andrew P. Sidamon-Eristoff, Treasurer, State of New Jersey*
Kathy Steepy, *Representing Charlene Holzbaur, Director, Office of Management and Budget*
Timothy Costello, *Representing Thomas B. Constance, Commissioner, Department of Banking and Insurance*

DEFINED CONTRIBUTION RETIREMENT PROGRAM BOARD

Joseph Zisa, *Chairperson, Representing Florence J. Sheppard, Acting Director, Division of Pensions and Benefits*
Sonia Rivera-Perez, *Representing Charlene Holzbaur, Director, Office of Management and Budget*
Timothy Costello, *Representing Thomas B. Constance, Commissioner, Department of Banking and Insurance*
Timothy Walsh, *Director, Division of Investment*

STATE HEALTH BENEFITS COMMISSION

Andrew P. Sidamon-Eristoff, *State Treasurer, Chairperson*
Thomas B. Constance, *Commissioner, Department of Banking and Insurance*
Robert Czech, *Chair, Civil Service Commission*
Florence J. Sheppard, *Secretary*
Patrick Nowlan, *State Employees' Representative of the AFL-CIO*
Dudley Burdge, *Local Employees' Representative of the AFL-CIO*

SCHOOL EMPLOYEES' HEALTH BENEFITS COMMISSION

David Earling, *Chairperson*
Andrew P. Sidamon-Eristoff, *Treasurer, State of New Jersey*
Thomas B. Constance, *Commissioner, Department of Banking and Insurance*
Cynthia Jahn, *Representing the NJ School Boards Association*
Florence J. Sheppard, *Secretary*
Kevin Kelleher, *Representing the NJEA*
Wendell Steinhauer, *Representing the NJEA*
Joseph Del Gross, *Representing the AFL-CIO*

SIGNIFICANT LEGISLATION

CHAPTER 52, P.L. 2011

Effective Date: This act takes effect on the 60th day following enactment (June 19, 2011), but the boards of trustees of the Public Employees' Retirement System, the Teachers' Pension and Annuity Fund, the Police and Firemen's Retirement System, and the State Police Retirement System, and the State House Commission, and the Division of Pensions and Benefits may take such anticipatory administrative action as may be necessary to implement the provisions of this act.

Description: This law provides that the boards of trustees of the Teachers' Pension and Annuity Fund, the Public Employees' Retirement System, the Police and Firemen's Retirement System, and the State Police Retirement System, and the State House Commission in the case of the Judicial Retirement System, will require a certifying officer to complete training on eligibility for enrollment in the pension fund or retirement system in accordance with the provisions of the rules or regulations and laws governing those funds or systems. "Certifying officer" is defined in the law to mean an officer or employee of the State or an employer other than State who is responsible for submitting to a pension fund or retirement system information, and for performing the duties relating to matters concerning the pension fund or retirement system with respect to each of the employees of the employer, as required of the employer by law, the board of trustees or commission, and the Division of Pensions and Benefits.

The law requires the division to develop, and the respective board or commission to approve, the form and content of the training. Each board or commission may require the training to include such additional pension fund or retirement system matters as it deems necessary to ensure compliance. The training will be provided through the Internet and accessible from the official Internet site of the State. A certifying officer required to complete the training will submit to the division an acknowledgement of such completion.

In addition, the law requires that each board of trustees or commission require a certifying officer and the officer's immediate supervisor to certify in writing or electronically, at the time of an enrollment of a member and annually for each member of the retire-

ment system, that the person enrolled is eligible for enrollment in the pension fund or retirement system in accordance with the relevant rules or regulations and law. The certification will require the certifying officer and the officer's immediate supervisor to acknowledge that any person who knowingly makes a false statement, or falsifies or permits to be falsified any record, application, form, or report of a pension fund or retirement system, in an attempt to defraud the fund or system as a result of such act will be guilty of a crime of the fourth degree.

This law is based on the recommendations of the Office of the Inspector General as set forth in the report "Professional Services Provider Enrollment in the PERS," issued December 15, 2009.

CHAPTER 78, P.L. 2011

Effective Date: June 28, 2011. Sections 39 through 44 regarding employee health benefit contributions will expire four years after this law's effective date.

Description: This law makes various changes to pension and health care benefits for public employees.

I. PENSION PLAN CHANGES

This law makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

Sections 1 to 7: *New Pension Committees Formed*

Establishes new pension committees as follows:

- One 8-member committee for the TPAF and one for the SPRS;
- Two 8-member committees in the PERS, one for the State part of the PERS and one for the local part of the PERS; and
- Two 10-member committees in the PFRS, one for the State part of the PFRS and one for the local part of the PFRS.

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Half of the members of each committee will be appointed by the Governor to represent public employers and half appointed by certain unions whose members are in the retirement system. When a target funded ratio for the system or part of the system is achieved, each committee will have the discretionary authority to modify the: member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance; age at which a member may be eligible and the benefits for service or early retirement; and benefits provided for disability retirement. A committee will not have authority to change the number of years required for vesting.

The committees of these systems will have the authority to reactivate the cost of living adjustment on pensions and modify the basis for the calculation of the cost of living adjustment and set the duration and extent of the activation. A committee must give priority consideration to the reactivation of the cost of living adjustment. No decision of the committee shall be implemented if the direct or indirect result of the decision will be that the system's funded ratio falls below the target funded ratio in any valuation period during the 30 years following the implementation of the decision.

The State House Commission will have the same authority with regard to JRS.

Each committee may also hire actuaries and consultants.

Sections 8 to 16: New Employee Pension Contribution Rates

This law provides for increases in the employee contribution rates: from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, meaning after 12 months, after the law's effective date for TPAF and PERS (including legislators, Law Enforcement Officer (LEO) members, and workers compensation judges); from 3% to 12% for JRS phased-in over seven years; from 8.5% to 10% for PFRS members and members of PERS Prosecutors Part; and from 7.5% to 9% for SPRS members.

Section 17 to 19 and Sections 37 and 38: Pension Plan Design Changes

New members of TPAF and PERS will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. New members will be eligible for a service retirement benefit at age 65. A new PFRS member's special retirement benefit will be 60% of final compensation, plus 1% of final compensation multiplied by the number of years of creditable service over 25 but not over 30, instead of the current benefit of 65% of final compensation plus 1% for each year of service over 25 but not over 30.

Sections 15 and 20 to 23: Funding Changes

Changes the methodology for calculating the unfunded accrued liability payment portion of the employer's annual pension contribution to the PERS, TPAF, PFRS, SPRS and JRS. The unfunded actuarial accrued liability (UAAL) will be amortized for each plan over an open-ended 30 year period and paid in level dollars. Beginning with the July 1, 2019 actuarial valuation (July 1, 2018 for PFRS), the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20 year period.

Section 24: Retirement Systems Actuary Selection Committee

Amends the statute pertaining to the Retirement Systems Actuary Selection Committee.

Section 25: COLA Suspension

Suspends the payment of automatic cost-of-living adjustment to current and future retirees and beneficiaries until reactivated as permitted by this law.

Section 26: Contractual Rights to Employer Pension Contributions

Provides that each member of the TPAF, JRS, Prison Officers' Pension Fund, PERS, Consolidated Police and Firemen's Pension Fund, PFRS, and SPRS will have a contractual right to the annual required contribution made by the employer or by any other public entity. The contractual right to the annual required contribu-

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tion means that the employer or other public entity must make the annual required contribution on a timely basis to help ensure that the retirement system is securely funded and that the retirement benefits to which the members are entitled by statute and in consideration for their public service and in compensation for their work will be paid upon retirement. The failure of the State or any other public employer to make the annually required contribution will be deemed to be an impairment of the contractual right of each employee. The Superior Court, Law Division will have jurisdiction over any action brought by a member of any system or fund or any board of trustees to enforce the contractual right set forth in this law. The State and other public employers will submit to the jurisdiction of the Superior Court, Law Division and will not assert sovereign immunity in such an action. If a member or board prevails in litigation to enforce the contractual right set forth in this law, the court may award that party their reasonable attorney's fees.

This section also provides that the rights reserved to the State in current law to alter, modify, or amend such retirement systems and funds, or to create in any member a right in the corpus or management of a retirement system or pension fund, cannot diminish the contractual right of employees established by this law.

Section 27: Target Funded Ratio Defined

Defines the term "target funded ratio" to mean a ratio of the actuarial value of assets against the actuarially determined accrued liabilities expressed as a percentage that will be 75 percent in State fiscal year 2012, and increased annually by equal increments in each of the subsequent seven fiscal years, until the ratio reaches 80 percent at which it is to remain for all subsequent fiscal years.

Section 28 to 32: Investment Council

Increases the membership of the State Investment Council from 13 to 16 members. It eliminates one representative from the SPRS, but adds one member from the State Troopers Fraternal Association. Two additional members are appointed by the Governor with the advice and consent of the Senate, and one additional appointment is added to the current one by the

Governor from persons nominated by Public Employee Committee of the New Jersey State AFL-CIO, specifying that one of the two will be a representative of a police officers' or firefighters' union. The law also provides that an elected member, as opposed to any member, of the boards of trustees for TPAF, PERS and PFRS will be eligible for designation to serve on the State Investment Council.

Section 33: Super Conciliator

Establishes a process using a super conciliator to resolve an impasse on a decision or matter regarding benefits before any of the newly established committees in the TPAF, PERS, PFRS, and SPRS.

Sections 34, 35 and 82: Retiring While Serving in Elected Office

The law repeals N.J.S.A.43:15A-47.2 and 43:16A-5.1 which provide that a member of PERS or PFRS may retire while holding an elective public office covered by PERS or PFRS and continue to receive the full salary for that office, if the member's PERS or PFRS retirement allowance is not based solely on service in the elected public office. PFRS or PERS retirees who were granted a retirement allowance under those sections prior to the law's effective date and are currently in an elective office covered by either of those systems may continue to receive their pension benefit and salary for the elective office.

Sections 56 to 75: Pension Plan Compliance Provisions

Codifies in law various provisions necessary to maintain the qualified plan status of the retirement systems under the federal Internal Revenue Code; for compliance with Statements Nos. 43 and 45 of the Governmental Accounting Standards Board, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 43/45); and to bring the defined contribution plans into compliance with U.S. Department of Treasury regulations affecting administration of plans administered under section 403(b) of the Internal Revenue Code. Modifications pertaining to the Supplemental Annuity Collective Trust are also being made by the law.

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II. HEALTH CARE BENEFIT CHANGES

Sections 39 to 44: Required Active and Retired Employee Contributions towards Health Benefit Coverage

This law requires all public employees and certain public retirees to contribute toward the cost of health care benefits coverage based upon a percentage of the cost of coverage.

All active public employees will pay a percentage of the cost of health care benefits coverage for themselves and any dependents. Lower compensated employees will pay a smaller percentage and more highly compensated employees will pay a higher percentage. In addition, the applicable percentage will vary based upon whether the employee has family, individual, or member with child or spouse coverage. The rates gradually increase based on an employee's compensation, at intervals of \$5,000. These rates will be phased in over several years for employees employed on the contribution's effective date who will pay $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$ of the amount of the contribution rate during the first, second and third years, respectively, meaning during the three 12-month periods after the contribution rates become effective. The law establishes a "floor" for employee contributions so that no employee will pay an amount that is less than 1.5% of the employee's compensation. Employees who pay for health care benefits coverage based upon a percentage of the cost of coverage will not also be required to pay the minimum contribution of 1.5% of compensation, as provided by other laws. The contribution will commence on the law's effective date for certain public employees and upon the expiration of a collective negotiation agreement for others.

Similar provisions in this law apply to retirees of the State, employers other than the State, and units of local government who accrue 25 years of service after the law's effective date, or on or after the expiration of an applicable collective bargaining agreement in effect on that date, and retire after that, who will be required to contribute a percentage of the cost of health care benefits coverage in retirement, but as based on their retirement benefit. These provisions

will not apply to public employees who, on the effective date of the law, have 20 or more year of service in one or more State or locally-administered retirement systems. A 1.5% "floor", for those retirees to whom the 1.5% contribution in current law applies, will also be applicable to these retirees.

The law allows boards of education and units of local government, that do not participate in the SHBP or SEHBP, to enter into contracts for health care benefits coverage, as may be required to implement a collective negotiations agreement, and agree to different employee contribution rates if certain cost savings in the aggregate over the period of the agreement can be demonstrated. The savings must be certified to the Department of Education or the Department of Community Affairs, as appropriate. The departments are to approve or reject the certification, within 30 days of receipt. The certification is deemed approved if not rejected within that time. The agreement cannot be executed until that approval is received or the 30 day period has lapsed, whichever occurs first.

The provisions concerning contributions for health care benefits will expire four years after the effective date.

A public employee whose amount of contribution in retirement was determined in accordance with the expired sections of law will be required to contribute the amount so determined in retirement, notwithstanding that the law has expired, with the retirement allowance, and any future cost of living adjustment thereto, used to identify the percentage of the cost of coverage.

Sections 36 and 45 to 55: New SHBP and SEHBP Committees

Creates two new committees, one for the State Health Benefits Program and one for the School Employees' Health Benefits Program and confers on the committees the responsibility for plan design. Half of the committee members will be appointed by the Governor to represent public employers and half by certain unions who represent public employees in the State. The law establishes a process using a super conciliator to resolve an impasse on a matter before a committee.

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Requires the committees for both programs to set the amounts for maximums, co-pays, deductibles, and other such participant costs; provide employees with the option to select one level of at least three levels of coverage each for family, individual, individual and spouse, and individual and dependent, or equivalent categories, for each plan offered by the program differentiated by out of pocket costs to employees including with regard to co-payments and deductibles; and provide for a high deductible health plan that conforms to the Internal Revenue Code Section 223.

Requires the Division to complete a study regarding local employer participation in the SHBP/SEHBP within one year of this law's effective date.

Requires local employers to establish an IRC Section 125 cafeteria plan for medical and dental plan participant costs.

Section 76: Coverage for Out-of-State Health Care Providers

Beginning January 1, 2012, limits coverage for certain medically necessary tertiary health care services performed by certain out of State health care providers. (NOTE: Section 76 of this law has been amended by S-2959, which will require health benefit plans provided to public employees to offer an option that covers out-of-state health care providers.)

Sections 77 to 79: Impact of Collectively Negotiated Agreements on Required Employee Health Benefit Contributions

A public employer and employees who are in negotiations for the next collective negotiations agreement to be executed after the employees in that unit have reached full implementation of the premium share set forth in this law must conduct negotiations concerning contributions for health care benefits as if the full premium share was included in the prior contract. The public employers and public employees will remain bound by the health care contribution provisions of the law, notwithstanding the expiration of those sections, until the full amount of the contribution has been implemented in accordance with the schedule set forth in this law.

Employees subject to any collective negotiations agreement in effect on the effective date of the law, that has an expiration date on or after the expiration of the health care contribution provisions of the law, will be subject to those provisions, upon expiration of that collective negotiations agreement, until the health care contribution schedule set forth in the law is fully implemented.

After full implementation, those contribution levels will become part of the parties' collective negotiations and will then be subject to collective negotiations in a manner similar to other negotiable items between the parties.

Section 80: Increased Employee Pension and Health Benefit Contribution Begin Date

The increased employee contributions under this law for pension benefits and the contributions for health care benefits will begin upon the implementation of necessary administrative actions for collection and will not be applied retroactively to this law's effective date.

III. OTHER PROVISIONS

Section 81: Disclaimer

Provides that if any provision of this law or its application to any particular person or circumstance is held invalid, that provision or its application shall be severable and shall not affect the validity of other provisions or applications of this act.

Section 82: Repealed Statutes

This law repeals the following statutes:

- N.J.S.A. 52:14-17.28a: Provides that the State Health Benefits Commission must not enter into a contract for the benefits provided pursuant to the contract in effect on October 1, 1988, including, but not limited to, basic benefits, extended basic benefits, and major medical benefits unless the level of benefits provided under the contract entered into is equal to or exceeds the level of benefits provided for in the contract in effect on October 1, 1988, or unless the benefits in effect on October 1, 1988 are modified by an authorized

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collective bargaining agreement made on behalf of the State.

- N.J.S.A. 43:15A-47.2: Provides that a member of PERS may retire while holding an elective public office covered by PERS and continue to receive the full salary for that office, if the member's PERS retirement allowance is not based solely on service in the elected public office.
- N.J.S.A. 43:16A-5.1: Provides that a member of PFRS may retire while holding an elective public

office covered by PFRS and continue to receive the full salary for that office, if the member's PFRS retirement allowance is not based solely on service in the elected public office.

Section 83: *Effective Date*

This law is effective immediately. Sections 39 through 44 regarding employee health benefit contributions will expire four years after this law's effective date.

SCOPE OF OPERATIONS

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

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

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

TEACHERS' PENSION AND ANNUITY FUND (TPAF)

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

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

POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)

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

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 16A. Rules governing the operation and administration of the system may be found in Title 17, Chapter 4 of the New Jersey Administrative Code.

STATE POLICE RETIREMENT SYSTEM (SPRS)

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

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

JUDICIAL RETIREMENT SYSTEM (JRS)

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

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

DEFINED CONTRIBUTION RETIREMENT PROGRAM (DCRP)

This program was established July 1, 2007 under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010. The program is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) §401(a) et seq., and is a "governmental plan" within the meaning of IRC §414(d). Eligible members are provided with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Individuals eligible for membership

SCOPE OF OPERATIONS

include State or Local Officials who are elected or appointed on or after July 1, 2007; employees enrolled in the PERS or TPAF on or after July 1, 2007 who earn salary in excess of established “maximum compensation” limits, employees enrolled in the PFRS or SPRS after May 21, 2010 who earn salary in excess of established “maximum compensation” limits; and employees otherwise eligible to enroll in the PERS or TPAF on or after November 2, 2008, who do not earn the minimum annual salary required for PERS or TPAF Tier 3 enrollment or do not work the minimum hours per week required for PERS or TPAF Tier 4 enrollment.

Statutes can be found in the New Jersey Statutes Annotated, Title 43, Chapter 15C, Article 1 et seq.

ALTERNATIVE BENEFIT PROGRAM (ABP)

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

Chapter 385, P.L. 1993 increased the number of investment carriers to six. The investment carriers underwriting annuities are as follows: VALIC; AXA Financial (Equitable); The Hartford; ING Life Insurance and Annuity Co.; MetLife (formerly Travelers/CitiStreet); and the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). The ABP is a “defined contribution” plan as distinguished from “defined benefits” payable by the other State retirement systems. Immediate vesting after the first year of participation offers the mobility of pension credit among the private and public institutions of higher education in the United States and Canada. Group life insurance and long-term disability insurance are underwritten by the Prudential Insurance Company of America, Inc.

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

PRISON OFFICERS’ PENSION FUND (POPF)

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

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

CONSOLIDATED POLICE AND FIREMEN’S PENSION FUND (CPFPF)

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

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

NEW JERSEY STATE EMPLOYEES DEFERRED COMPENSATION PLAN (NJSEDCP)

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

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

Prudential Retirement was selected as the NJSEDCP’s third-party administrator on August 26, 2005. The Division of Pensions and Benefits maintains its administrative oversight functions.

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST (SACT)

This trust was established by Chapter 123, P.L. 1963. This program includes active members of several State-administered retirement systems. Members make voluntary additional contributions through their pension

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funds to purchase variable retirement annuities in order to supplement the benefits provided by their basic system. Some employers agree to purchase tax-sheltered annuities for the same purpose for certain eligible employees.

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

ADDITIONAL CONTRIBUTIONS TAX-SHELTERED PROGRAM (ACTS)

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

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

CENTRAL PENSION FUND (CPF)

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

PENSION ADJUSTMENT FUND (PAF)

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

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

in Title 17, Chapter 1 of the New Jersey Administrative Code.

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

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

STATE HEALTH BENEFITS PROGRAM (SHBP)

The program provides medical coverage to employees, retirees, and their dependents. Chapter 125, P.L. 1964 extended the program to include employees of local government. The program includes a preferred provider organization (NJ DIRECT) and two HMO plans (Aetna HMO and CIGNA HealthCare). A small group of State employees are covered under legacy plans — the indemnity type plan (Traditional Plan) and a point-of-service plan (NJ PLUS).

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

SCHOOL EMPLOYEES' HEALTH BENEFITS PROGRAM (SEHBP)

The program provides medical coverage to local education employees, retirees, and their dependents. Chapter 103, P.L. 2007 established the program which includes a preferred provider organization (NJ DIRECT) and two HMO plans (Aetna HMO and CIGNA HealthCare).

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Article 17.46 et seq. Rules governing the operation and administration of the program can be found in Title 17, Chapter 9 of the New Jersey Administrative Code.

SCOPE OF OPERATIONS

PRESCRIPTION DRUG PLAN (PDP)

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

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

EMPLOYEE DENTAL PLANS (EDP)

This program was initially established February 1, 1978 and further expanded in June 1984. Eligible State and certain local employees may enroll for themselves and their eligible dependents by paying the premium calculated to meet half the cost of the plan. Plans offered include the Dental Expense Plan, a traditional indemnity plan, and a selection of Dental Plan Organizations.

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

TAX\$AVE

The State Employees Tax Savings Program (Tax\$ave) was initially established for State Employees in July 1996 and authorized under Section 125 of the Internal Revenue Code. The benefit consists of three components: the Premium Option Plan that allows employees to use pre-tax dollars deducted from their pay for health or dental benefit premiums they may be required to pay for coverage; the Flexible Spending Account for Unreimbursed Medical Expenses that allows employees to use up to \$2,500 pre-tax dollars

annually deducted from their pay for medical expenses not reimbursed by their medical or dental insurance; and the Dependent Care Spending Account that allows employees to use up to \$5,000 pre-tax dollars annually deducted from their pay for dependent care expenses required to permit the employee and spouse to work.

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

COMMUTER TAX\$AVE

This program, authorized by Chapter 162, P.L. 2001 and available under Section 132(f) of the federal Internal Revenue Code, allows eligible State employees to use before-tax dollars to pay for qualified commuter expenses. Under the program, eligible employees may execute salary reduction agreements to have up to \$230 per month (\$2,760 per year) deducted from salary to pay for mass transit commutation costs and \$230 per month (\$2,760 per year) to pay for parking at work or at park and ride sites. The program was implemented in February 2004.

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

STATE EMPLOYEES

LONG TERM CARE INSURANCE PLAN

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

Statutes can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Article 15.9a and Title 34, Chapter 11, Article 4.4b(10).

MEMBERSHIP

ACTIVE MEMBERSHIP	RETIREMENT SYSTEM	2010	2011
	Public Employees' Retirement System	315,101*	297,604*
	Teachers' Pension & Annuity Fund	158,288*	152,145*
	Police & Firemen's Retirement System	44,858*	42,849*
	State Police Retirement System	3,056*	2,880*
	Judicial Retirement System	430	416
	Alternate Benefit Program	21,334	21,364
	Prison Officers' Pension Fund	0	0
	Consolidated Police & Firemen's Pension Fund	0	0
	Central Pension Fund	NA	NA
	Total	543,067	517,258
<p><i>*Both the 2010 and 2011 figures represent the total number of Active and Inactive accounts. The 2011 Inactive (noncontributing) accounts are as follows: PERS Inactive — 50,049, TPAF Inactive — 14,058, PFRS Inactive — 1,990, SPRS Inactive — 30.</i></p>			
RETIRED MEMBERSHIP & BENEFICIARIES	RETIREMENT SYSTEM	2010	2011
	Public Employees' Retirement System	139,450	147,311
	Teachers' Pension & Annuity Fund	80,220	85,875
	Police & Firemen's Retirement System	35,729	37,882
	State Police Retirement System	2,641	2,813
	Judicial Retirement System	526	544
	Alternate Benefit Program	NA	NA
	Prison Officers' Pension Fund	142	141
	Consolidated Police & Firemen's Pension Fund	369	288
	Central Pension Fund	10	9
	Total	259,087*	274,863*
<p><i>*The number of retirees varies slightly from those reported in the Notes to the Financial Statements due to differences in the effective dates of said tabulations.</i></p>			
PARTICIPATION IN HEALTH BENEFITS PROGRAM	HEALTH PROGRAM	2010	2011
	State Health Benefits Program and School Employees' Health Benefits Program	394,521	394,016
	Prescription Drug Plan	337,420	333,853
	Dental Expense Program	157,933	164,152

MEMBERSHIP

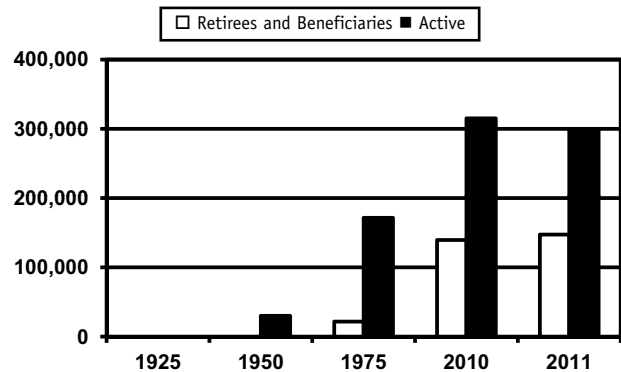
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

As of June 30, 2011, the active membership of the system totaled 297,604. There were 147,311 retirees and beneficiaries receiving annual pensions totaling \$2,557,287,918*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$115,035,218.

The system's assets totaled \$27,578,208,153 at the close of the fiscal year 2011.

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



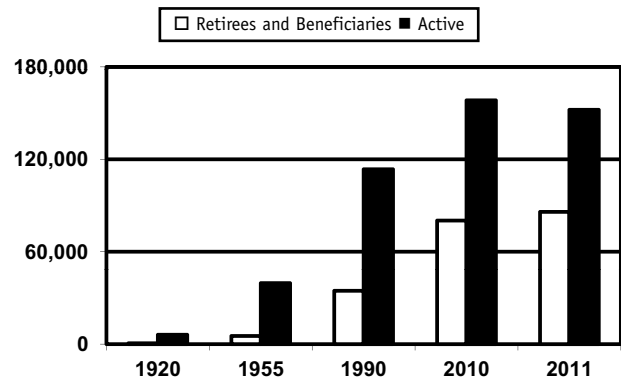
TEACHERS' PENSION AND ANNUITY FUND

As of June 30, 2011, the active membership of the fund totaled 152,145. There were 85,875 retirees and beneficiaries receiving annual pensions totaling \$3,278,676,346*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$64,782,346.

The fund's assets totaled \$28,135,250,425 at the close of the fiscal year 2011.

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



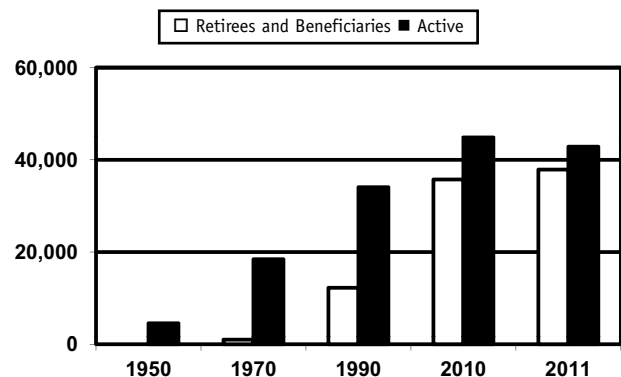
POLICE AND FIREMEN'S RETIREMENT SYSTEM

As of June 30, 2011, the active membership of the system totaled 42,849. There were 37,882 retirees and beneficiaries receiving annual pensions totaling \$1,686,445,400*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$35,107,319.

The system's assets totaled \$21,673,746,646 at the close of the fiscal year 2011.

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



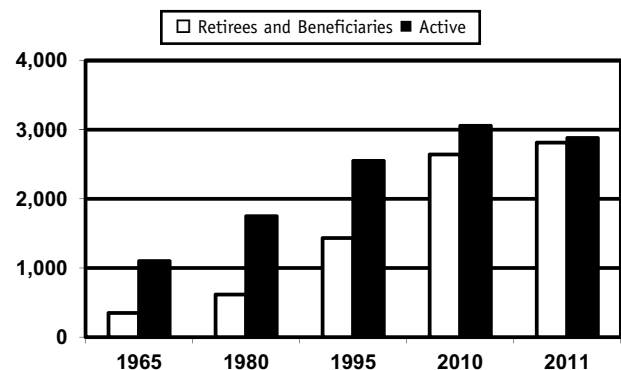
STATE POLICE RETIREMENT SYSTEM

As of June 30, 2011, the active membership of the system totaled 2,880. There were 2,813 retirees and beneficiaries receiving annual pensions totaling \$146,731,301*.

Beneficiaries of deceased active and retired members received lump sum death benefits in the amount of \$2,201,604.

The system's assets totaled \$1,840,999,631 at the close of the fiscal year 2011.

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

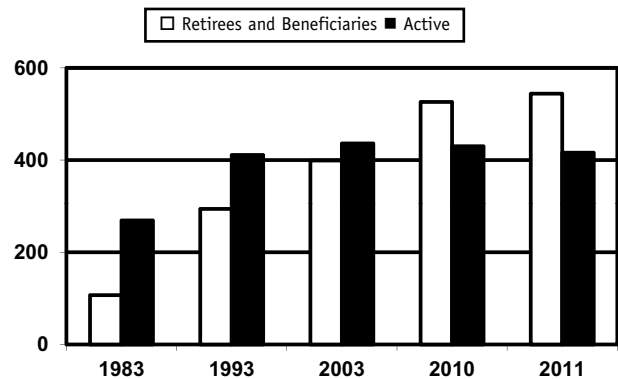


MEMBERSHIP

JUDICIAL RETIREMENT SYSTEM

As of June 30, 2011, the active membership of the system totaled 416. There were 544 retirees and beneficiaries receiving annual pensions totaling \$42,546,315.

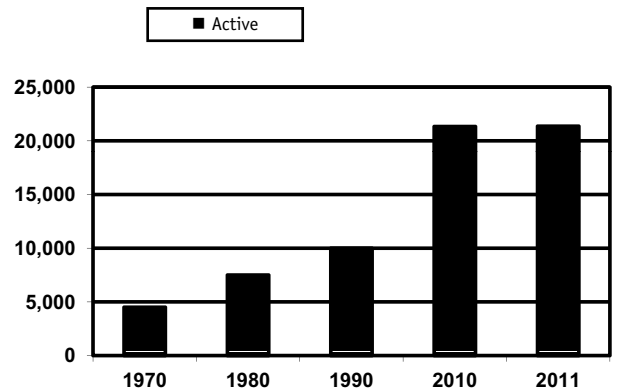
The system's assets totaled \$271,319,216 at the close of the fiscal year 2011.



ALTERNATE BENEFIT PROGRAM

As of June 30, 2011, the State paid \$145,671,784 on behalf of 21,364 participants to the carriers underwriting this program.

Beneficiaries of deceased active and retired members received \$13,669,244 in lump sum death benefits.



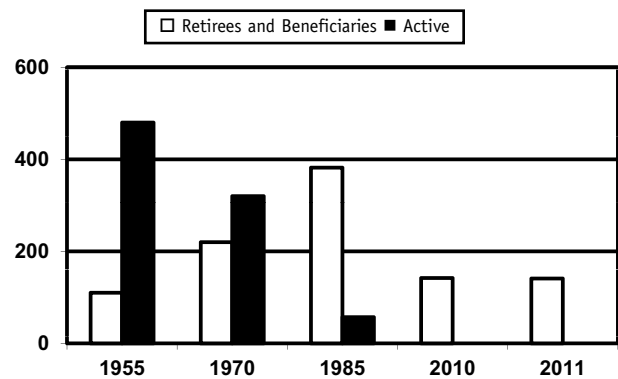
PRISON OFFICERS' PENSION FUND

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

This fund was closed to new membership in January 1960.

As of June 30, 2011, the active membership of the fund totaled zero. There were 141 retirees and beneficiaries receiving annual pensions totaling \$2,110,016.

The fund's assets totaled \$10,180,710 at the close of the fiscal year 2011.

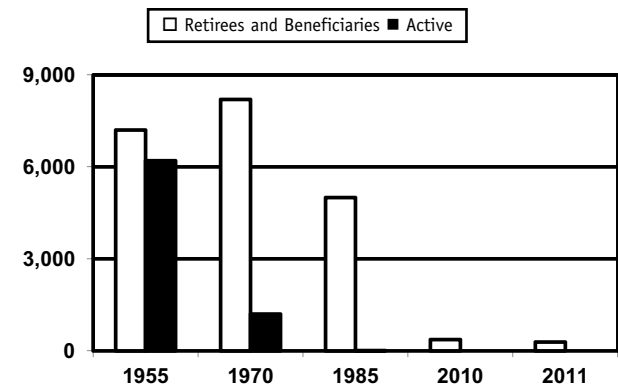


CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

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

As of June 30, 2011, the active membership of the fund totaled zero. There were 288 retirees and beneficiaries receiving annual pensions totaling \$6,308,585.

The fund's assets totaled \$7,382,458 at the close of the fiscal year 2011.



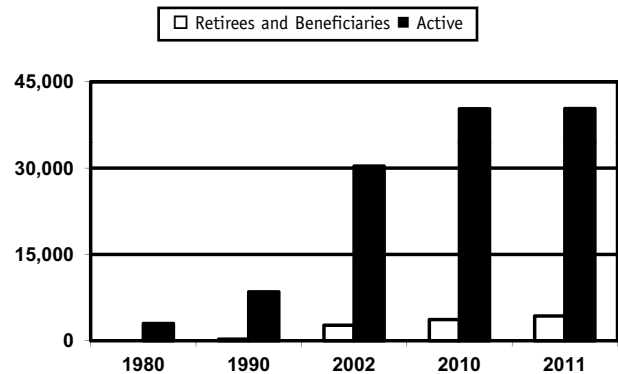
MEMBERSHIP

NJ STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

Fiscal year 2011 continues to show a marked increase in active participation due to membership campaigns conducted by the Division of Pensions and Benefits.

As of June 30, 2011, the active membership of the New Jersey State Employees' Deferred Compensation Plan totaled 40,348. There were 4,300 members receiving monthly installment payments.

The plan's net assets (participants' balances) were \$2,506,642,343 at the close of the fiscal year 2011.

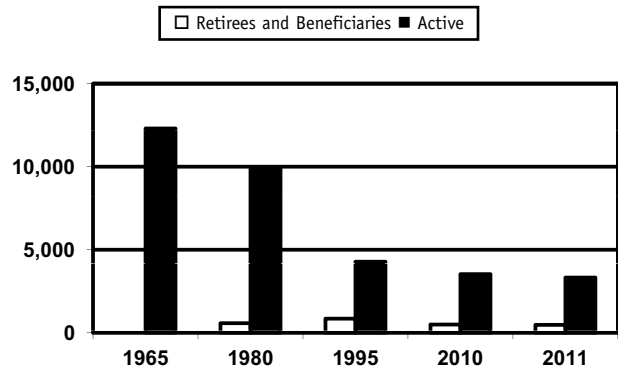


SUPPLEMENTAL ANNUITY COLLECTIVE TRUST

As of June 30, 2011, the active membership of the trust totaled 3,328. The unit value was \$62.3742, an increase of \$12.2266 from the June 30, 2010 value of \$50.1476.

There were 478 annuitants.

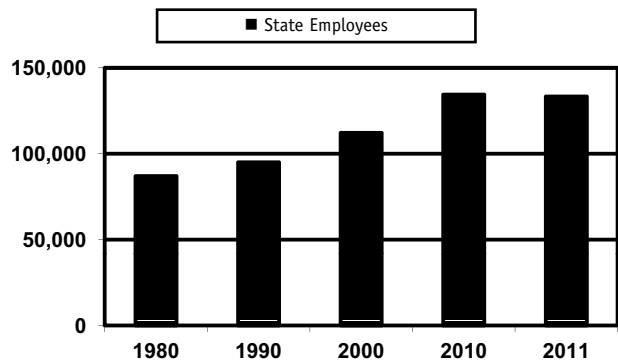
The trust's assets totaled \$161,845,058 at the close of the fiscal year 2011.



UNEMPLOYMENT COMPENSATION AND TEMPORARY DISABILITY INSURANCE

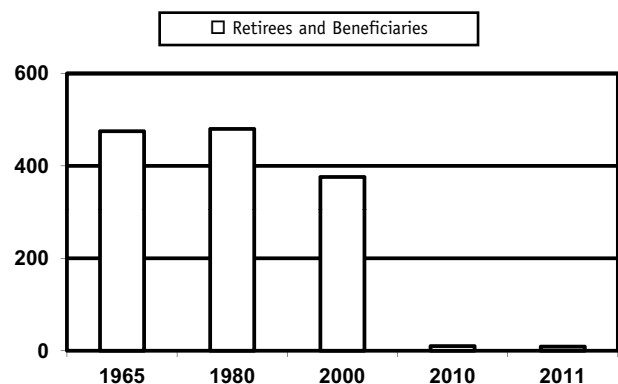
As of June 30, 2011, the Unemployment Compensation Program for State employees covered as many as 123,270 persons, and the Division remitted \$4,307,607 on behalf of the State. There were 11,267 requests for unemployment benefits filed, and \$31,416,242 was paid to the employees found eligible.

During the same period, the Temporary Disability Insurance Program covered 133,307 employees, and the Division remitted \$34,566,365 on behalf of the State. Claims paid totaled \$33,749,568.



CENTRAL PENSION FUND

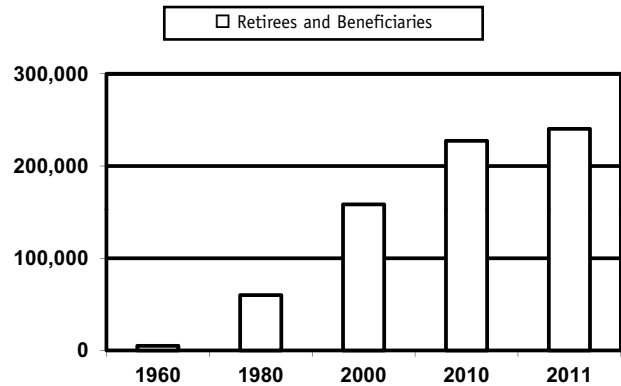
As of June 30, 2011, there were 9 beneficiaries receiving annual pensions totaling \$188,667.



MEMBERSHIP

PENSION ADJUSTMENT EXPENSE

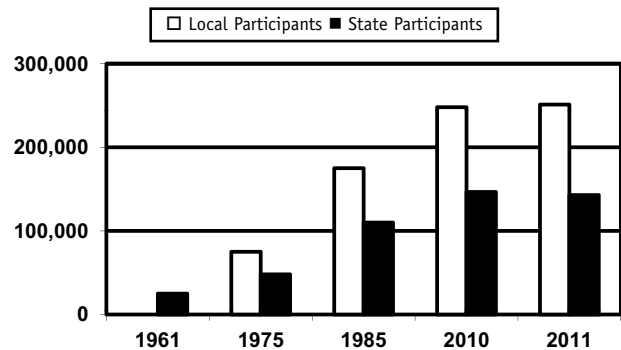
There were 240,323 pensioners who were paid \$930,431,701 during the fiscal year 2011.



STATE HEALTH BENEFITS PROGRAM AND SCHOOL EMPLOYEES' HEALTH BENEFITS PROGRAM

As of June 30, 2011, there were 394,016 covered participants (active and retired) consisting of 142,873 State participants and 251,143 participants of 1,068 local participating employers.

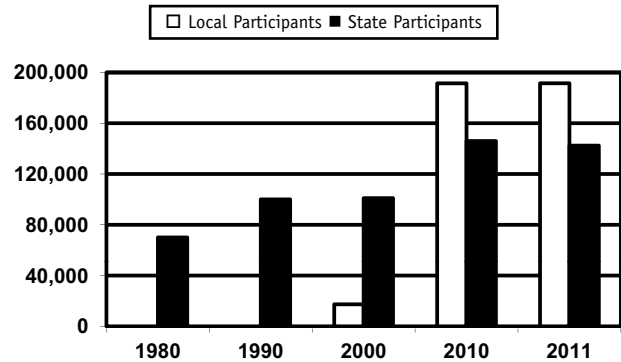
The State and state employee contributions were \$1,324,717,729 while payment made by local (including education) employers and employees was \$2,226,097,653.



PRESCRIPTION DRUG PLAN

The Prescription Drug Plan covered as many as 142,377 State participants and 191,476 local participants during fiscal year 2011.

The State's contribution was \$449,182,953 while payment made by local (including education) employers was \$607,441,208.



DENTAL EXPENSE PROGRAM

The Dental Expense Program covered as many as 115,359 eligible State participants and 48,793 local participants during fiscal year 2011. The State of New Jersey as the employer expended \$26,043,847 for active participants while payment made by local (including education) employers was \$2,606,575.

