State of New Jersey
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

TO THE HONORABLE
JAMES E. McGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

The Board of Trustees of the

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2002 Annual Report in accordance with the provisions of N.J.S.A. 43:15A-21.

Respectfully submitted,

GARY SAAGE
Chairperson

Public Employees' Retirement System

BOARD OF TRUSTEES

SIGNIFICANT LEGISLATION

CHAPTER 201, P.L. 2001

This law allows police and firefighters who transferred to the Police and Firemen's Retirement System (PFRS) under P.L.1993, c.247 to receive full benefits under PFRS for public safety service rendered prior to the transfer without having to pay the increased cost to the system of providing those benefits. This law applies to both active and retired PFRS members.

P.L.1993, c.247 (C.43:16A-3.8 et seq.) provided for the optional transfer from the Public Employees' Retirement System (PERS) to the PFRS of all municipal police officers and firefighters, plus certain other law enforcement officers, who were not already in PFRS. Chapter 247 provided that a transferring member would receive pro-rated PFRS/PERS benefits upon retirement, unless (1) the member paid to PFRS the full cost (i.e., both the employee's and employer's share) of the accrued liability for the purchased credit, or (2) the voters of the municipality or fire district in which the transferred officer was employed approved a local referendum to adopt PFRS and assume the employer's share of any accrued liability for such transfers.

The new law provides that a PERS member who transferred to PFRS under the 1993 law will automatically receive credit toward full benefits under PFRS for the transferred PERS service. In addition, the law provides that a transferred member who paid the cost for the establishment of full PFRS credit will be reimbursed for that payment.

The additional pension liability created by this law shall be funded by recognizing additional market surplus assets as of June 30, 1999.

This law was approved August 8, 2001 and was effective November 6, 2001.

CHAPTER 253, P.L. 2001

This law allows a retired member of the Public Employees' Retirement System (PERS) to accept employment with an institution of higher education in a teaching position covered by the retirement system, if the compensation is in excess of $10,000 per year, without being subject to the cancellation of retirement benefits and re-enrollment in the system. Under current law, a retired PERS member may already accept such employment if the compensation does not exceed $15,000 per year. Neither the individual nor the employer would be required to contribute to the retirement system with respect to the new employment. The law defines public institutions of higher education to include the University of Medicine and Dentistry of New Jersey, the New Jersey Institute of Technology, Rutgers - The State University, any State or county college, and any other college or university that may be established at some future time.

The law was approved on November 15, 2001 and was effectively immediately.

CHAPTER 259, P.L. 2001

This law amends the Public Employees Retirement System (PERS) statutes and creates special retirement benefits for members employed as Workers Compensation Judges. PERS members entitled to the new benefits would be 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.

The eligibility criteria and benefits provided under the Workers Compensation Judges Part of the PERS statutes are similar to provisions for members of the Judicial Retirement System (JRS), while retaining some current PERS provisions in areas of:

- options upon retirement,
- disability retirement, and
- contributory life insurance coverage.

Under current law (N.J.S.A.34:15-94j.), the Commissioner of Labor, with the authorization of and appropriation by the Legislature, transfers the amount necessary for the cost of the administration of the Division of Workers' Compensation, including the employer pension contributions of the State, from the Second Injury Fund.

This law was approved on December 6, 2001 and was effective immediately.

CHAPTER 278, P.L. 2001

This law increases from $10,000 to $15,000 the maximum annual aggregate compensation a Public Employees' Retirement System (PERS) retiree may receive from employment in a PERS-covered position with a public employer without being subject to cancellation of retirement benefits and reenrollment in the retirement system.

The law also specifies that $15,000 is the aggregate annual compensation that a retiree may receive from all public employers in all PERS-covered positions. Previously, a retiree was exempt from reenrollment if the compensation from each employer did not exceed the annual maximum of $10,000, regardless of the number of employers or aggregate compensation.

This law was approved December 27, 2001 and was effective immediately.

CHAPTER 341, P.L. 2001

P.L.2001, c.6 provided that a member of the Public Employees' Retirement System (PERS) or a member of the Teachers' Pension and Annuity Fund (TPAF) could transfer service credit between the two retirement systems even though there was a two year period of dual membership (concurrent membership in both retirement systems). This law increases the permissible time period of dual membership from two to three years when transferring service credit between the two retirement systems.

This law was approved on January 3, 2002 and was effective immediately.

CHAPTER 353, P.L. 2001

This law provides for an increase in the special veterans retirement allowance and the ordinary and accidental disability retirement allowances for members of the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS). The percentage increase is comparable to the increase provided in the service retirement formulas of those retirement systems under P.L.2001, c.133. That law increased the TPAF and PERS service retirement formulas and the veterans retirement formula for those veterans with 35 or more years of service, both of which are computed on the basis of the number of years of the retirant's service, by approximately nine percent.

PERS and TPAF Veterans and Disability Benefit Formula Changes

This law provides that the TPAF and PERS special veterans retirement allowance will increase from 50 percent to 54.5 percent of the member's compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance will increase from 40 percent to 43.6 percent of "final compensation" (average compensation during the three last or highest-paid years of service), and the accidental disability retirement allowance will increase from 66.66 percent to 72.7 percent of the actual annual compensation at the time of the accident. Existing retirees, or their beneficiaries, will also receive these percentage increases in their retirement allowances.

PERS Veterans Benefit Eligibility Changes
The law also: (1) reduces from 62 to 60 the age at which a PERS veteran member with 20 years of aggregate service credit may retire on the special veterans retirement allowance; and (2) provides that a PERS veteran member who is 55 years of age with 25 years of aggregate service credit may retire on the special veterans retirement allowance. These changes establish parity between eligibility qualifications for veterans retirement under PERS and those enjoyed by TPAF veterans since 1984.

PERS-Law Enforcement Officers (LEO) Service Retirement Benefit Formula Change
The law applies the new N/55 accrual rate to non-law enforcement officer service.

Miscellaneous
The law removes an inoperative provision of the former law that had placed a cap on both ordinary and accidental disability retirement allowances. This provision had been preempted by the federal Older Workers Benefit Protection Act.

Funding
The additional annual employer normal contributions to TPAF and PERS associated with this law will be paid from the benefit enhancement funds established by P.L.2001, c.133. If the assets in these funds are insufficient to pay the normal contribution, the State will pay the normal contribution not covered by the assets. Excess valuation assets will cover the unfunded liability created in TPAF and PERS. The State will be liable for any increased cost to local government employers participating in PERS as a result of these changes.

This law was approved January 6, 2002, and was effective immediately, retroactive to October 1, 2001.

CHAPTER 355, P.L. 2001

This law provides an exemption from the re-enrollment after retirement provisions to the following:

1. A retiree of the Teachers' Pension and Annuity Fund (TPAF) who is a certificated superintendent or a certificated administrator and who becomes employed by the New Jersey Department of Education in a position of critical need as determined by the Commissioner of Education, or becomes employed by a board of education as a certificated superintendent or certificated administrator on a contractual basis for a term of not more than one year; and
2. A retiree of the Public Employees' Retirement System (PERS) who becomes employed by the New Jersey Department of Education in a position of critical need as determined by the commissioner, or becomes employed by a board of education in a position of critical need as determined by the superintendent of the district on a contractual basis for a term of not more than one year.

A retiree employed by a board of education will be able to renew the employment contract for one additional year; however, the retiree's total period of employment with any individual board of education may not exceed a two-year period. The law also provides that the current pension re-enrollment provisions will apply if a retiree accepts employment with the same employer from which he retired within 120 days of retirement.

This law was approved January 6, 202 and was effective immediately.

CHAPTER 366, P.L. 2001

This law establishes within the Public Employees' Retirement System (PERS) a special Prosecutors Part for any county prosecutor, first assistant county prosecutor or assistant county prosecutor; the Director of the Division of Criminal Justice in the Department of Law and Public Safety; any assistant director, deputy director, assistant attorney general or deputy attorney general employed by that department and assigned to that division; and any criminal investigator in the Division of Criminal Justice ineligible for enrollment in the Police and Firemen's Retirement System (PFRS). These positions are defined as prosecutors for the purposes of this law. The prosecutor must have been serving on or after the effective date of the law to be eligible for the benefits of this law.

This law was approved on January 7, 2002 and was effective immediately.

CHAPTER 11, P.L. 2002

This law revises the funding of State-paid post-retirement medical (PRM) benefits for qualified retirees and their dependents under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS).

It provides that the State's contribution to the PRM funds for each pension system to increase the fund balance by 1/2 of 1% of the salary of the active members for the valuation period will not be made by the State in fiscal years 2002 and 2003. Beginning with the actuarial valuation period ending June 30, 2002, applicable to fiscal year 2004, the contribution will be computed to provide that the balance in the PRM fund will be increased by 3/5 of 1% of the salary of the active members for the valuation period.

The law also provides that:

1. any monies in the PRM funds may be used in fiscal year 2002 to pay for the premiums or periodic charges for the benefits for qualified retirees and their dependents; and
2. the provisions of the law will not alter health care benefits for qualified retirees and their dependents or relieve the State from its obligation to fund the benefits.

This law was approved on March 26, 2002 and was effective immediately.

CHAPTER 23, P.L. 2002

This law established an early retirement incentive for eligible State employees and employees of State autonomous authorities who meet specified age and service requirements and who retire within a specified time period. State employees must retire on or after February 1, 2002, but no later than July 1, 2002. Employees of State autonomous authorities must retire on or after July 1, 2002, but no later than September 1, 2002 if the authority fiscal year ends on or before June 30, 2002. If the fiscal year ends after June 30, 2002, employees shall retire no earlier than two months before and not later than the first day of the calendar month after the close of the fiscal year. The offering of the additional retirement benefits is optional for the authorities.

The eligibility requirements and the additional benefits are as follows:

- Employees who are at least 50 years of age with at least 25 years of service credit under the Public

Employees' Retirement System (PERS) or the Teachers' Pension and Annuity Fund (TPAF) and who retire on a service or early retirement will receive three additional years of service credit. Such members of the Alternate Benefit Program (ABP), federal Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) will receive an amount equal to 60% of base annual salary. The amounts payable to members of the ABP and the federal systems will be paid in two separate installments.

- Employees who are at least 55 years of age with 25 or more years of service credit in PERS or TPAF and who retire on a veteran's retirement will receive an additional pension in the amount of 3/55 of the compensation upon which the retirement allowance is based.
- Employees who are at least 60 years of age with at least 20, but less than 25, years of service credit in PERS, TPAF or ABP, will receive payment by the retirement system or the State of retiree health care benefits on the same basis that the State currently pays for the coverage of retirees with 25 or more years of service credit. Authority employees already eligible for authority-paid health care benefits will receive $500 per month for 24 months, as will employees of authorities which do not offer employer-paid retiree health care coverage.
- Employees who are at least 60 years of age with at least 10, but not more than 20, years of service credit in PERS, TPAF or ABP, will receive an additional pension or payment of $500 a month for 24 months following the date of retirement.

Amounts payable to members of the ABP will be made to the employee's retirement annuity contract, up to the amount allowed by Section 415 of the Internal Revenue Code, and then to a contract on behalf of the employee that meets the requirements of Section 403(b) of the Code. Any amount in excess of the cumulative maximum contributions allowed under these Code provisions will be payable directly to the employee.

When the needs of State government or a college or university so require, an employee electing to retire under the law may continue in employment for up to one year with the approval of the employer and the agreement of the employee. When the needs of a State autonomous authority so require, an employee electing to retire under the law may continue in employment for up to one year, but no longer than until September 1, 2003, with the approval of the employer and the agreement of the employee. If the employee dies during the period of continued employment, the retirement will become effective on the first day of the month after the date of death.

A State autonomous authority may elect to provide the benefits of this law by filing a resolution with the Division. A State autonomous authority which elects to offer the benefits provided by this law to its employees who are in PERS and which also has employees under other retirement systems or pension plans would be required to provide comparable benefits to those eligible employees.

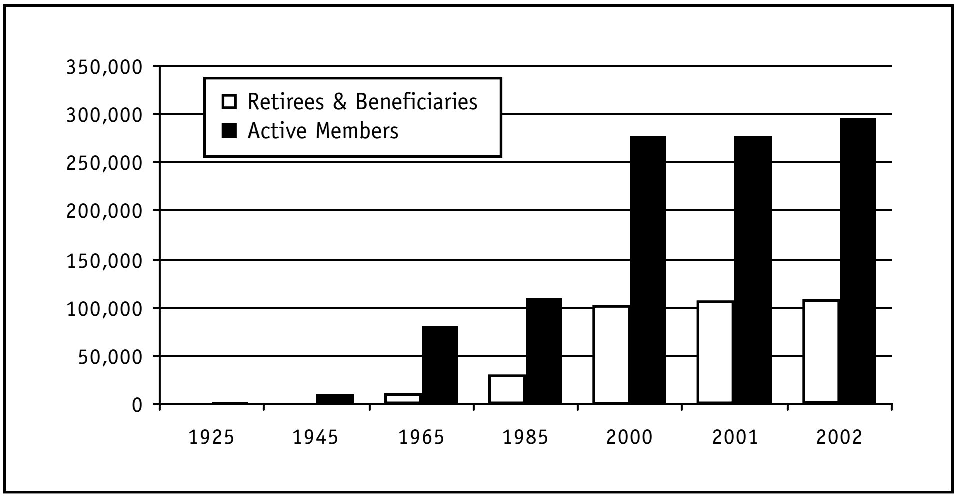
The additional PERS and TPAF pension liabilities incurred by the State and electing State autonomous authorities will be added to their accrued liability and funded pursuant current pension laws governing unfunded accrued liabilities. Cash payments to ABP members will be made by the State colleges and universities.

The Director of the Division of Pensions and Benefits is required to report annually for five years to the Joint Budget Oversight Committee on the aggregate costs and savings resulting from the enactment of this substitute.

This law was approved on May 30, 2002 and was effective immediately.

MEMBERSHIP

- As of June 30, 2002, the active membership of the System totaled 296,895. This includes 85,283 State employees and 211,612 employees from 1,698 participating local employers. Total inactive membership as of June 30, 2002 was 41,494.
- There were 107,671 retirees and beneficiaries receiving annual pensions totaling $1,183,490,252. *(This includes cost-of-living increases paid under the provisions of the Pension Adjustment Act)*.
- Beneficiaries of 737 active and 3,887 retired members received lump sum death benefits in the amount of $88,632,011.
- The System's assets totaled $21,698,860,050 at the close of the fiscal year 2002.



MEMBERSHIP ACTIVITY

During fiscal year 2002, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Public Employees' Retirement System of New Jersey.

- **LOANS** - 74,080 loans were issued to members. The total loans receivable as of June 30, 2002 is $451,164,387.
- **RETIREMENT** - 6,420 members retired under the following retirement types:

TYPE OF RETIREMENT	
Service	3,755
Early	1,013
Deferred	275
Ordinary Disability	1,049
Accidental Disability	38
Veteran	290
TOTAL	6,420

OPTION SELECTION	
Maximum	3,243
Option 1	997
Option 2	630
Option 3	283
Option 4	10
Other	1,257
TOTAL	6,420

KPMG LLP
New Jersey Headquarters
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Short Hills, NJ 07078

Independent Auditors' Report

The Board of Trustees
State of New Jersey
Public Employees’ Retirement System:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Public Employees' Retirement System (the System) as of June 30, 2002 and 2001, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Public Employees' Retirement System as of June 30, 2002 and 2001, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the System 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, 2000.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions 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 consisted 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 audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in fiduciary net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audits 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.

KPMG LLP

September 6, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS
Public Employees' Retirement System

June 30, 2002 and 2001

Our discussion and analysis of the Public Employees' Retirement System (the System)'s financial performance provides an overview of the System's 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

- Net assets held in trust for pension and post-retirement medical benefits decreased by $2,996,912,338 as a result of this year's operations from $24,549,159,354 to $21,552,247,016.
- Additions for the year were ($1,548,241,044), which are comprised of member and employer pension contributions of $341,572,081 and investment losses of ($1,889,813,125).
- Deductions for the year were $1,448,671,294, which are comprised of benefit and refund payments of $1,428,680,724 and administrative expenses of $19,990,570.
- The System 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.

THE STATEMENTS OF FIDUCIARY NET ASSETS AND THE STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

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

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

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

The System's assets mainly consist of cash, investments and contributions due from members and participating employers. Between fiscal year 2001 and 2002, total assets decreased by $2,954,863,066 from $24,653,723,116 to $21,698,860,050. The decrease in total assets is mainly due to a loss in the fair value of the System's investments and an increase in benefit payments. During the year, the System had an estimated investment loss of 9.0%.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, noncontributory group insurance premiums owed to the System's insurance provider, and other payables. Total liabilities increased by $42,049,272 or 40.2% over last year from $104,563,762 to $146,613,034. 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 15 million.

Net assets held in trust for pension and post-retirement medical benefits decreased by $2,996,912,338 or 12.2% primarily due to the investment losses realized by the System.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

	2002	2001	Increase(Decrease)
Member Contributions	$ 340,363,504	$ 314,235,958	$ 26,127,546
Employer Contributions	1,208,577	86,099,027	(84,890,450)
Investment & Other	(1,889,813,125)	(2,569,536,756)	679,723,631
Totals	$ (1,548,241,044)	$ (2,169,201,771)	$ 620,960,727

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions rose 8.3% due to normal salary increases and increased membership. Employer contributions decreased significantly due to the fact that the State was not required to make a contribution in fiscal year 2002 toward the cost of post-retirement medical benefits. Under legislation passed during the year (Chapter 11, P.L. 2002), the State was permitted to use net assets held in trust for post-retirement medical benefits to cover this year's anticipated premiums. This legislation also suspended for 2002 and 2003 the annual State contribution to the Post-retirement Medical Fund.

This year is the fifth consecutive year that the State and local participating employers have not been required to make a normal pension contribution to the System. The normal contributions have been funded using net assets (excess assets above the required funding level). 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 System received bond proceeds of $241,106,642 in 1997. This influx of funds, coupled with investment returns in the late 1990s, has produced excess net assets which have been utilized to cover the normal contributions from 1998 through 2002.

For the second consecutive year, the System had an investment loss. In fiscal year 2002, the total investment loss for all pension funds was estimated to be 9.0% compared to 10.4% in the prior year.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

	2002	2001	Increase(Decrease)
Benefits	$ 1,358,160,290	$ 1,191,297,283	$ 166,863,007
Refunds & Adjustments	70,520,434	74,428,304	(3,907,870)
Administrative Expenses	19,990,570	16,233,802	3,756,768
Totals	$ 1,448,671,294	$ 1,281,959,389	$ 166,711,905

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members and administrative costs incurred by the System. Benefit payments increased primarily because legislation was passed (Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001) that provides a 9.09% increase in benefits to retirees and beneficiaries. The benefit enhancements were effective with the November 1, 2001 retirement checks. The number of retirees receiving benefits has also increased. 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.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratio of 117.1% indicates that the System has assets sufficient to meet its benefit obligations now and in the future.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statements of Fiduciary Net Assets

June 30, 2002 and 2001

	2002			2001		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Assets:						
Cash	$ —	—	—	77,805,428	—	77,805,428
Investments, at fair value:						
Cash Management Fund	547,458,853	1,751,724	549,210,577	597,185,222	3,084,577	600,269,799
Bonds	292,062,291	934,523	292,996,814	213,624,055	1,525,524	215,149,579
Common Pension Fund A	9,469,749,791	30,300,709	9,500,050,500	11,664,301,974	83,585,336	11,747,887,310
Common Pension Fund B	6,362,426,820	20,358,092	6,382,784,912	6,418,642,720	46,000,434	6,464,643,154
Common Pension Fund D	3,471,196,393	11,106,915	3,482,303,308	3,703,700,588	26,537,422	3,730,238,010
Mortgages	644,574,127	2,062,468	646,636,595	964,026,898	6,906,771	970,933,669
Total investments	20,787,468,275	66,514,431	20,853,982,706	23,561,481,457	167,640,064	23,729,121,521
Receivables:						
Contributions:						
Members	51,994,449	—	51,994,449	49,768,723	—	49,768,723
Employers	203,751,526	—	203,751,526	201,630,725	—	201,630,725
Accrued interest and dividends	132,790,054	—	132,790,054	142,180,843	—	142,180,843
Members' loans	453,087,166	—	453,087,166	451,164,387	—	451,164,387
Other	3,254,149	—	3,254,149	2,051,489	—	2,051,489
Total receivables	844,877,344	—	844,877,344	846,796,167	—	846,796,167
Total assets	21,632,345,619	66,514,431	21,698,860,050	24,486,083,052	167,640,064	24,653,723,116
Liabilities:						
Accounts payable and accrued expenses	23,790,049	—	23,790,049	12,809,653	—	12,809,653
Retirement benefits payable	103,272,186	—	103,272,186	87,941,736	—	87,941,736
NCGI premiums payable	18,486,585	—	18,486,585	3,812,373	—	3,812,373
Cash overdraft	1,064,214	—	1,064,214	—	—	—
Total liabilities	146,613,034	—	146,613,034	104,563,762	—	104,563,762
Net assets:						
Held in trust for pension benefits	$ 21,485,732,585	66,514,431	21,552,247,016	24,381,519,290	167,640,064	24,549,159,354

See schedule of funding progress on page 23.
See accompanying notes to financial statements.

STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2002 and 2001

	2002			2001		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Additions:						
Contributions:						
Members	$ 340,363,504	—	340,363,504	314,235,958	—	314,235,958
Employers	1,208,577	—	1,208,577	658,027	85,441,000	86,099,027
Other	4,673	—	4,673	7,553	—	7,553
Total contributions	341,576,754	—	341,576,754	314,901,538	85,441,000	400,342,538
Investment income:						
Net (depreciation) appreciation in fair value of investments	(2,598,973,862)	(15,087,606)	(2,614,061,468)	(3,389,756,119)	(10,872,141)	(3,400,628,260)
Interest	583,563,248	—	583,563,248	697,664,009	—	697,664,009
Dividends	145,434,993		145,434,993	138,065,495		138,065,495
	(1,869,975,621)	(15,087,606)	(1,885,063,227)	(2,554,026,615)	(10,872,141)	(2,564,898,756)
Less investment expense	4,754,571	—	4,754,571	4,645,553	—	4,645,553
Net investment income	(1,874,730,192)	(15,087,606)	(1,889,817,798)	(2,558,672,168)	(10,872,141)	(2,569,544,309)
Total additions	(1,533,153,438)	(15,087,606)	(1,548,241,044)	(2,243,770,630)	74,568,859	(2,169,201,771)
Deductions:						
Benefits	1,272,122,263	86,038,027	1,358,160,290	1,117,905,183	73,392,100	1,191,297,283
Withdrawals	70,520,434	—	70,520,434	74,428,304		74,428,304
Administrative expenses	19,990,570	—	19,990,570	16,233,802		16,233,802
Total deductions	1,362,633,267	86,038,027	1,448,671,294	1,208,567,289	73,392,100	1,281,959,389
Change in net asets	(2,895,786,705)	(101,125,633)	(2,996,912,338)	(3,452,337,919)	1,176,759	(3,451,161,160)
Transfers among reserves	—	—	—	(61,923,485)	61,923,485	—
Net assets - Beginning of year	24,381,519,290	167,640,064	24,549,159,354	27,895,780,694	104,539,820	28,000,320,514
Net assets - End of year	$ 21,485,732,585	66,514,431	21,552,247,016	24,381,519,290	167,640,064	24,549,159,354

See accompanying notes to financial statements.

(1) DESCRIPTION OF THE SYSTEM

The State of New Jersey Public Employees' Retirement System (the System) is a cost-sharing multiple-employer contributory defined benefit plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A. The System is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

At June 30, 2001, the date of the most recent actuarial valuation, and June 30, 2000, participating employers consisted of the following:

	2001	2000
State of New Jersey	1	1
County agencies	66	66
Municipalities	578	577
School districts	561	562
Other public agencies	466	436
Total	1,672	1,642

The System's designated purpose is to provide retirement, death, disability and medical benefits to certain qualified members. Membership in the System is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund. The System's Board of Trustees is primarily responsible for the administration of the System.

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

Vesting and Benefit Provisions:

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

(1) DESCRIPTION OF THE SYSTEM, Continued

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.

Significant Legislation:

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 66.66% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which are effective October 2001.

Chapter 23, P.L. 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, P.L. 2001 amends the PERS statutes and creates special retirement benefits for members 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.

(1) DESCRIPTION OF THE SYSTEM, Continued

Membership:

Membership in the System consisted of the following at June 30, 2001, the date of the most recent actuarial valuation, and 2000:

2001	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries currently receiving benefits and employees entitled to benefits but not yet receiving them	106,982	13,952
Active members:		
Vested	140,604	10,096
Non-vested	140,224	75,675
Total active members	280,828	85,771
Total	387,810	99,723

2000	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries currently receiving benefits and employees entitled to benefits but not yet receiving them	104,200	13,068
Active members:		
Vested	139,165	9,349
Non-vested	130,777	73,082
Total active members	269,942	82,431
Total	374,142	95,499

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System is accounted for using an economic resources measurement focus. The System that focuses on total economic resources employs the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net assets of the System. Under this method, revenues are recorded in the accounting period in which they are earned,

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

and deductions are recorded at the time the liabilities are incurred. The financial statements of the System 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 System. Benefits and refunds are recognized when payable in accordance with the terms of the System.

New Accounting Standards Adopted:

Effective July 1, 2000, 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) requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of the System's financial activities.

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 value.

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 System. 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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 Funds, 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 System, through the State Treasurer, and custodian banks as agents for the System. 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%.

GASB Statement No. 3 requires disclosure of the level of risk assumed by the System. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. As of June 30, 2002 and 2001, all investments held by the System (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 System. 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 System. The custodian banks, as agents for the System, maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the System.

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

Members' Loans:

Members can borrow up to 50% of their accumulated member contributions. To obtain a loan, a member must have at least three years of service credit in the System. 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:

The System is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the System to the State of New Jersey, Department of the Treasury, and are included

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

in the accompanying statements of changes in fiduciary net assets.

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 institution's 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, substantially all cash balances maintained in financial institutions as of June 30, 2002, which include funding for the July 1, 2002 retirement payroll, are designated Category 3.

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

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 System. 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

(3) CONTRIBUTIONS, Continued

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 $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.

(4) FUNDS

This System maintains the following legally required funds:

Members' Annuity Savings and Accumulative Interest Fund (2002 - $6,124,856,638; 2001 - $5,745,676,091)

The Members' Annuity Savings Fund is credited with all contributions made by active members of the System. Interest earned on member contributions is credited to the Accumulated Interest Fund. The annual rate of interest on member contributions, as required by Chapter 62, P.L. 1994, is 8.75%.

Contingent Reserve Fund (2002 - $3,991,477,386; 2001 - $9,246,598,990)

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, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund (2002 - $10,629,869,683; 2001 - $9,247,794,308)

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 and medical benefits for certain retirees, are paid. Upon retirement of a member, accumulated contributions, together with accumulated regular interest, are transferred to the Retirement Reserve Fund from the Members' Annuity Savings Fund and Accumulative Interest Fund. Any additional reserves needed for the retirement and cost-of-living benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.75% for 2002 and 2001) is credited to the Retirement Reserve Fund.

Special Reserve Fund (2002 - $0; 2001 - $0)

The Special Reserve Fund is the fund to which 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 allocat-

(4) FUNDS, Continued

ed to the System, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund which amounted to $174,121,903 and $140,452,687 as of June 30, 2002 and 2001, respectively. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund (2002 - $167,182,773; 2001 - $141,449,901)

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

Post-Retirement Medical Fund (2002 - $66,514,431; 2001 - $167,640,064)

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 (2002 - $572,346,105; 2001 - $0)

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.

(5) INCOME TAX STATUS

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the System is a qualified plan as described in Section 401(a) of the Internal Revenue Code.

STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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)
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 OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2001 and 2000 actuarial valuations included the following:

	June 30, 2001	**June 30, 2000**
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 percent, closed
Payroll growth rate for amortization	5.00%	5.00%
Remaining amortization period	40 years for UAAL balance 10 years for asset method change	32 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%

Annual covered payroll is an estimate based upon annualizing one quarter's actual payroll.

STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS[1]	PERCENTAGE CONTRIBUTED
State:			
1997	$ 134,878,582	$ 241,106,642[2]	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%

Notes to Schedule:

(1) Excludes post-retirement medical contributions (State only) and contributions received from other State of New Jersey retirement systems for certain members who transferred their eligible prior service credit to the Public Employees' Retirement System. The local employer contribution from 1998 to 2002 consists of required contributions under the early retirement incentive programs.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund, in full or in part, the required contributions of the State and local employers.

(2) For the year ended June 30, 1997, the state portion of 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.

Schedule 3

STATE OF NEW JERSEY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2002

	MEMBERS' ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	SPECIAL RESERVE FUND	CONTRIBUTORY GROUP INSURANCE PREMIUM FUND	POST-RETIREMENT MEDICAL FUND	BENEFIT ENHANCEMENT FUND	OTHER	TOTAL
Additions:									
Contributions:									
Members	$ 298,140,816	—	—	—	42,222,688	—	—	—	340,363,504
Employers	—	1,208,577	—	—	—	—	—	—	1,208,577
Other	—	—	—	—	—	—	—	4,673	4,673
Total contributions	298,140,816	1,208,577	—	—	42,222,688	—	—	4,673	341,576,754
Distribution of net investment income	429,679,197	(3,232,801,373)	878,682,283	—	18,163,065	(15,087,606)	31,546,636	—	(1,889,817,798)
Total additions	727,820,013	(3,231,592,796)	878,682,283	—	60,385,753	(15,087,606)	31,546,636	4,673	(1,548,241,044)
Deductions:									
Benefit payments	—	53,979,129	1,183,485,580	—	34,652,881	86,038,027	—	4,673	1,358,160,290
Refunds of contributions	65,162,047	5,358,387	—	—	—	—	—	—	70,520,434
Administrative expenses	—	19,990,570	—	—	—	—	—	—	19,990,570
Total deductions	65,162,047	79,328,086	1,183,485,580	—	34,652,881	86,038,027	—	4,673	1,448,671,294
Net increase (decrease) before transfers among reserves	662,657,966	(3,310,920,882)	(304,803,297)	—	25,732,872	(101,125,633)	31,546,636	—	(2,996,912,338)
Transfers among reserves:									
Retirements	(286,511,468)	(616,069,436)	902,580,904	—	—	—	—	—	—
Other	3,034,049	(1,328,131,286)	784,297,768	—	—	—	540,799,469	—	—
Net increase (decrease)	379,180,547	(5,255,121,604)	1,382,075,375	—	25,732,872	(101,125,633)	572,346,105	—	(2,996,912,338)
Net assets held in trust for pension and post-retirement medical benefits:									
Beginning of year	5,745,676,091	9,246,598,990	9,247,794,308	—	141,449,901	167,640,064	—	—	24,549,159,354
End of year	$ 6,124,856,638	3,991,477,386	10,629,869,683	—	167,182,773	66,514,431	572,346,105	—	21,552,247,016

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